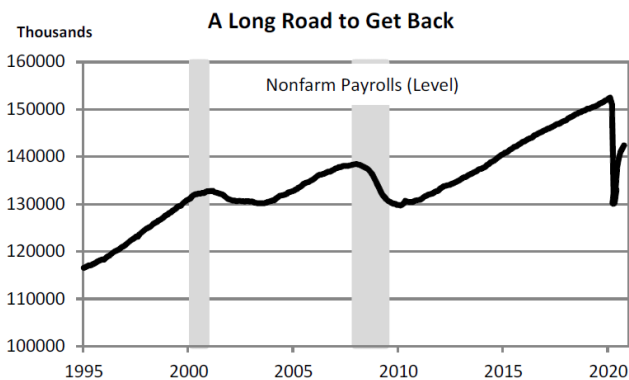


Individuals are eligible to receive up to six months of unemployment benefits from their states; after that they can apply for extended benefits under special pandemic-related Federal Programs created under the CARES Act, which were also expanded to include gig workers, self-employed individuals and some others who are ordinarily ineligible for regular unemployment benefits. Those programs are set to expire at the end of this year.



Longer Unemployment

If Congress does not extend these programs or replace them with new forms of financial assistance, the plight of the long-term unemployed workers would suffer greatly. The size of this pool of potentially disenfranchised workers is not only worrying; it is set to expand exponentially next year. As of late October, there were 21 million workers receiving unemployment benefits of any kind – from states and from the federal government’s pandemic relief programs. But over 60 percent of those recipients, or 13.6 million are in the federal programs that would be cast adrift beginning in 2021. What’s more, many of the remaining 7 million or so unemployed workers receiving regular state benefits are edging towards losing their lifelines as well. That’s because they are staying longer on the sidelines. In October, half of the unemployed workers were out of a job for 19.9 weeks, the longest stretch of unemployment since May 2012 and more than double the average length over the past three years. By the time the calendar turns to 2021, these workers would have reached the cutoff mark of 26 weeks, assuming they have not found a job.

To be sure, more workers are being hired than laid off, which offers some promise that these job seekers would be able to regain a paycheck before the clock runs out. But net job growth has been slowing steadily and unemployed workers are facing stiff competition in their job search.

More than 2 workers are vying for every job opening, according to the latest Labor Department data. That’s lower than it was when the pandemic shock vaporized more than 22 million jobs back in March and April, but it is more than double the pre-pandemic level.

Fiscal Uncertainty

It’s still uncertain whether Congress will agree on another round of stimulus that would help unemployed workers as well as the broader economy. Critics arguing against another dose of fiscal stimulus base their case on two events. First, they argue that more support may not even be needed, thanks to the muscular rebound in economic activity over the summer months. Their view is that the job market is healing nicely, which diminishes the urgency to throw more of a lifeline to unemployed workers.

Second, some legislators are chafing over reports that the CARES Act provided unemployed workers with more income than they received while they were working. This, it is believed, not only provided more funds than were needed, but it also discouraged many workers from looking for a job, thus keeping unemployment artificially higher than otherwise. Take away the disincentive, they argue, and people would get off the couch and start working again.

While those arguments have some intuitive appeal, they do not hold up under closer scrutiny. For one, the primary catalyst behind the muscular rebound from the pandemic recession was the fiscal stimulus itself, which has just about petered out. Not surprisingly, the waning influence of the CARES Act is already sapping strength from the rebound, as the growth in jobs and consumer spending downshifted heading into the fourth quarter. Indeed, retail sales in October barely increased, suggesting that a not very cheerful holiday shopping season looms ahead. With regards to work disincentives, the fact that 80 percent of the temporary laid-off workers returned to their jobs rather than stay home and collect generous unemployment checks is a telling rebuke of that notion. Most people would rather be gainfully employed and have the security of a paycheck than the uncertainty of staying jobless after the unemployment checks stop coming.

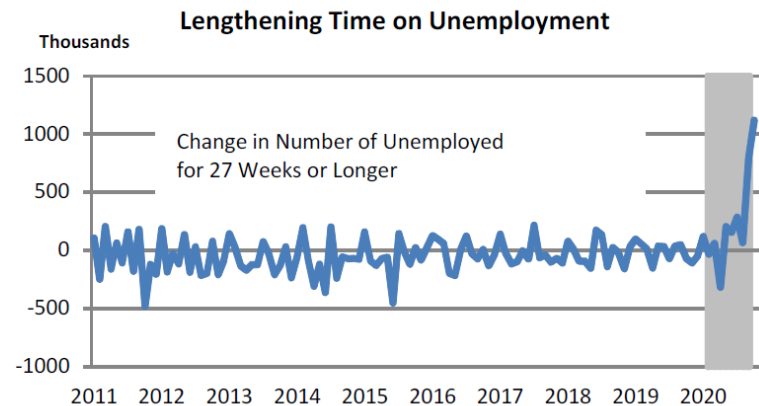
Running Out of Time

No doubt, there is still some juice left to sustain the recovery even as the fate of another stimulus bill remains in limbo. Households, for one, have built up a huge savings cushion over the past six months, as spending on a broad array of services, including eating at restaurants, attending the theater, traveling and other leisure activities, have been constricted by the virus. Hence, there is a considerable amount of purchasing power in the pipeline to sustain spending for a while longer. Plus, the pandemic unemployment programs still have another month to go, providing some income support to unemployed workers.

For another, president-elect Biden is inheriting a more favorable policy environment than his predecessor did during the Great Recession in 2008-2009. Not long after the Fed lowered interest rates to zero in December 2008 and Congress passed the Recovery Act providing a substantial amount of fiscal stimulus, policymakers were thinking of ways to reverse course. The Fed was determined to “normalize” interest rates and Congress shifted its focus towards reining in the budget deficit; indeed, the premature shift to fiscal austerity contributed to years of a lackluster recovery.

The policy environment now is much more supportive of growth. The Fed is intent on keeping interest low as far as the eye can see and is imploring Congress to open the spending spigot. And while a big stimulus bill advocated by the Democrats is not in the cards, there is a consensus among lawmakers that some additional relief will be needed, although it's unclear if anything will emerge during the lame-duck session.

The good news is that the rapid progress on the vaccine front should jump-start the economy's growth engine over the second half of next year. However, it would be a mistake to sugarcoat the near-term prospects: the U.S. health situation is going from bad to worse, with an uncontrolled surge in new virus cases and record number of hospitalizations. The resulting increase in virus fear and renewed social distancing measures are weighing on sentiment and constraining spending. Without additional fiscal aid, the economy may not make it intact by the time the vaccine is ready to work its magic.



Bank Rhode Island Executive Management

Mark J. Meiklejohn

President & CEO

MMeiklejohn@bankri.com

William C. Tsonos

Executive Vice President

Director of Commercial Banking

WTsonos@bankri.com

Steven M. Parente

Executive Vice President

Director of Retail Banking

SParente@bankri.com

Financial Indicators

	October	September	August	July	June	May	April	12-Month Range	
								High	Low
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	4.75	3.25
3-Month Treasury Bill Rate	0.10	0.11	0.10	0.13	0.16	0.13	0.14	1.54	0.10
5-Year Treasury Note Rate	0.34	0.27	0.27	0.28	0.34	0.34	0.39	1.68	0.27
10-Year Treasury Note Rate	0.79	0.68	0.65	0.62	0.73	0.67	0.66	1.86	0.62
30-Year Treasury Bond Rate	1.57	1.42	1.36	1.31	1.49	1.38	1.27	2.30	1.27
Tax-Exempt Bond Yield	2.35	2.23	2.15	2.14	2.20	2.40	2.42	2.82	2.14
Corporate Bond Yield (AAA)	2.35	2.31	2.25	2.14	2.44	2.50	2.43	3.06	2.14
Conventional 30-Year Mortgage Rate	2.83	2.89	2.94	3.02	3.16	3.23	3.31	3.72	2.83
Dow Jones Industrial average	28005	27733	27821	26386	26062	24271	23294	28880	22637
S&P 500 Index	3419	3366	3392	3208	3105	2920	2762	3419	2652
Dividend Yield (S&P)	1.75	1.68	1.62	1.72	1.84	1.88	2.01	2.30	1.62
P/E Ratio (S&P)	25.6	26.3	26.8	25.1	23.8	21.2	20.1	26.8	17.8
Dollar Exchange Rate (vs. Major Currencies)	116.2	116.7	117.4	119.1	120.0	123.0	123.6	123.6	115.3

* Monthly Averages

ECONOMIC INDICATORS

	October	September	August	July	June	May	April	12-Month Range	
								High	Low
Housing Starts (In Thousands)	1530	1459	1373	1487	1265	1038	934	1617	934
New Home Sales (Thousands of Units)		959	994	965	841	698	570	994	570
New Home Prices (Thousands of Dollars)		327	322	330	341	317	310	341	310
Retail Sales (% Change Year Ago)	5.7	5.9	3.6	2.7	2.2	-5.6	-19.9	5.9	-19.9
Industrial Production (% Change Year Ago)	-5.3	-6.7	-6.7	-6.7	-10.7	-15.9	-16.5	-0.2	-16.5
Operating Rate (% of Capacity)	72.8	72.0	72.2	71.7	68.7	64.7	64.1	77.6	64.1
Inventory Sales Ratio (Months)		1.32	1.32	1.33	1.37	1.50	1.67	1.67	1.32
Real Gross Domestic Product (Annual % Change)		33.1			-31.4		-5.0	33.1	-31.4
Unemployment Rate (Percent)	6.9	7.9	8.4	10.2	11.1	13.3	14.7	14.7	3.5
Payroll Employment (Change in Thousands)	638	672	1493	1761	4781	2725	-20787	4781	-20787
Hourly Earnings (% Change Year Ago)	4.5	4.6	4.6	4.6	4.9	6.6	8.0	8.0	3.0
Personal Income (% Change Year Ago)		6.2	5.5	8.6	7.8	9.3	14.1	14.1	1.8
Savings Rate (Percent of Disposable Income)		14.3	14.8	18.1	18.7	24.5	33.6	33.6	7.2
Consumer Credit (Change in Mil. Of Dollars)		16.2	-6.9	14.7	19.7	-13.4	-64.6	21.5	-64.6
Consumer Prices (% Change Year Ago)	1.2	1.4	1.3	1.0	0.7	0.2	0.4	2.5	0.2
CPI Less Food & Energy (% Change Year Ago)	1.6	1.7	1.7	1.6	1.2	1.2	1.4	2.4	1.2
Wholesale Prices (% Change Year Ago)	0.5	0.5	-0.2	-0.4	-0.8	-0.8	-1.0	2.1	-1.0