

U.S. Municipal Bond Market

The Decline of Social Distancing and its Economic Impact

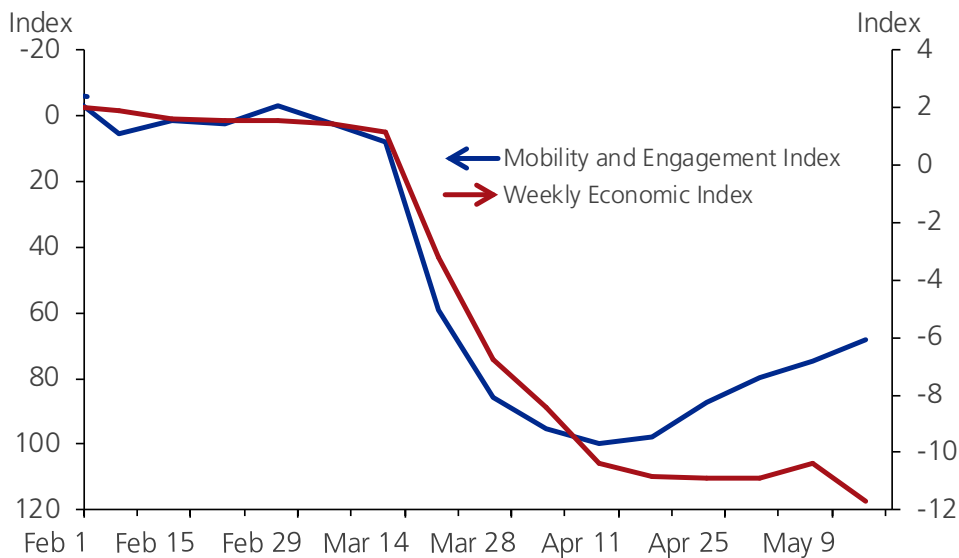
Summary

- The Dallas Federal Reserve partnered with data providers and created its Dallas Fed National Mobility and Engagement (ME) Index. The ME Index incorporates seven different variables and is measured daily.
- If the Mobility and Engagement Index continues to fall, we could see economic activity continue to pick up, however if the ME Index retreats or remains stagnate in negative territory, that could be a sign individuals still do not feel safe and economic activity could suffer.
- Based on the Dallas Fed Mobility and Engagement Index data, we are observing distinct differences in the ranges and pace of recovery of mobility in various areas of the country. The New York City MSA for example still has one of the lowest mobility levels, while the San Francisco MSA reading is moving closer to the pre-COVID shutdown levels.

Backdrop

Yesterday, New York City began its reopening process and today, New Jersey Governor Phil Murphy's Executive Order lifted the state's stay-at-home order. Other states like Florida, Georgia, and Texas began a reopening process a few weeks ago. All are still following some level of social distancing guidelines. Even when official guidelines are completely lifted, it is very possible that social distancing measures will continue to a degree, limiting mobility, interactions, and economic activity.

Social Distancing Index Relationship to Economic Activity



Source: SafeGraph, Homebase, Federal Reserve Bank of Dallas, and HilltopSecurities.

Tom Kozlik

Head of Municipal Strategy & Credit
214.859.9439
tom.kozlik@hilltopsecurities.com

Even when official guidelines are completely lifted, it is very possible that social distancing measures will continue to a degree, limiting mobility, interactions, and economic activity.

The Practice of Social, or Physical Distancing

The concept, much less the practice, of social distancing was not well known outside of the medical community before the end of February this year. Yet now, it would be difficult to find anyone who is not familiar with social, or what is also referred to as physical distancing. The three key elements of social distancing according to the Centers for Disease Control and Prevention (CDC) are 1) stay at least 6 feet apart from other people, 2) do not gather in groups, and 3) stay out of crowded places and mass gatherings.¹

Significant social distancing measures were undertaken in the U.S. to minimize the spread of COVID-19 from person-to-person since policymakers recognized the health threat in March 2020. Now, statewide shelter-in-place orders are being rescinded after it has been determined they helped to flatten the curve. State, regional, and local governments have been and/or are trying to prepare to reopen while also trying to maintain an essential level of safety. Opening too hastily, or without precautions in place, risks exposure that could waste the last two-plus months of extreme social distancing. An important part of the reopening process is ensuring that social distancing guidelines are being followed. What will be helpful and interesting to see is if or how social distancing continues once official restrictions are completely removed.

Searching for Clues

Going forward, policymakers, investors, and citizens will be searching for indicators to determine how the economy has been and is being impacted by social distancing, or more importantly, the decline of social distancing going forward. In order to aid in this search, the Dallas Federal Reserve partnered with data providers to create the Dallas Fed's Mobility and Engagement (ME) Index.² The ME Index incorporates seven different variables and is measured daily. On the previous page we compared the ME Index with the Dallas Fed's Weekly Economic Index.

Social distancing policies were absolutely the leading reasons for economic activity's fall at an unprecedented pace in recent weeks. However, it is important to note the social distancing index has been falling since the middle of April, which is right around the time we realized the efforts to flatten the curve in California, New York, and other areas where the outbreak was concentrated were successful. Since the middle of April, the ME Index has fallen steadily. However, we did not see an increase in the Weekly Economic Index until the middle of May.

Drivers of Economic Growth Going Forward

It is intuitive that economic activity will continue to pick up as official social distancing measures are lifted. What is not known is how comfortable individuals will be without official social distancing measures. How quickly will consumers return to the activities that formerly drove economic growth?

Other questions remain about how housing markets and commercial property demand could potentially shift. The pace at which primary, secondary, and higher-ed students are able to return to classrooms, and whether sectors like travel and leisure return promptly, will also be driven by a faster decrease of social distancing. If the social distancing index continues to fall, we could see economic activity continue to pick up, however if social distancing and thus the ME Index rises or even remains stagnate in negative territory, that could be a sign that individuals still do not feel safe and economic activity could suffer.

Differences in Mobility by Region

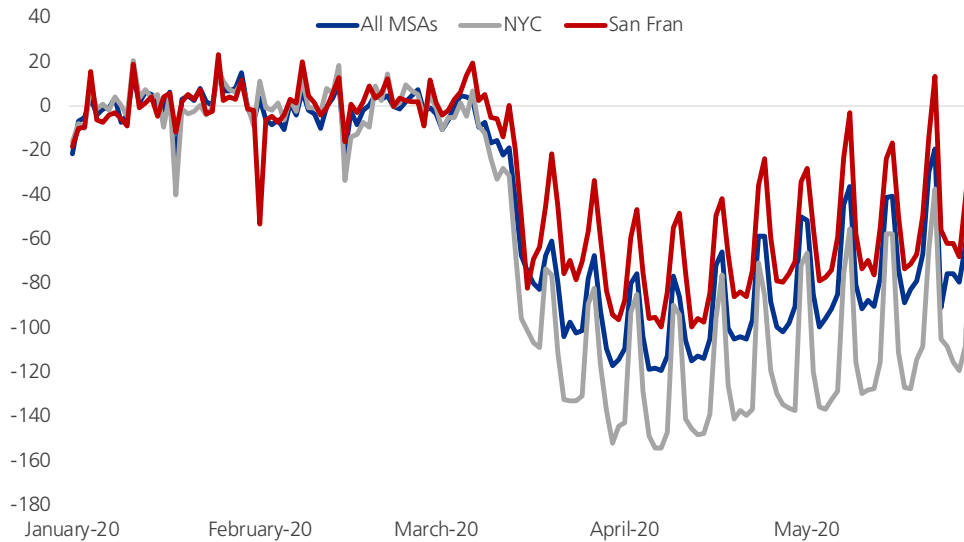
We are observing, based on the MSA specific ME Index data, there are distinct differences in the ranges, and pace of recovery of mobility in various areas of the country. For example, the New York City MSA still has one of the lowest mobility levels, while the San Francisco MSA reading is moving closer to the pre-COVID shutdown levels. Such differences will help give us an idea of how close different regions and MSAs are to returning to a more normal pre-COVID level of mobility.

Statewide shelter-in-place orders are being rescinded after it has been determined they helped to flatten the curve. State, regional, and local governments have been and/or are trying to prepare to reopen while also trying to maintain an essential level of safety.

The Dallas Federal Reserve partnered with data providers to create the Dallas Fed's ME Index, which incorporates seven different variables and is measured daily.

If the social distancing index continues to fall, we could see economic activity continue to pick up, however if social distancing and thus the ME Index rises or even remains stagnate in negative territory, that could be a sign that individuals still do not feel safe and economic activity could suffer.

Mobility Index Tracks Regional Variations in Mobile Device Movement



We are observing, based on the MSA specific ME Index data, there are distinct differences in the ranges, and pace of recovery of mobility in various areas of the country.

Source: SafeGraph, Homebase, Federal Reserve Bank of Dallas, and HilltopSecurities.

¹ [Social Distancing](#); Centers for Disease Control and Prevention; accessed June 2, 2020.

² Atkinson, Tyler; Jim Dolmas; Christoffer Koch; Evan Koenig; Karel Mertens; Anthony Murphy and Kei-Mu Yi; [Dallas Fed Mobility and Engagement Index Gives Insight into COVID-19's Economic Impact](#); Federal Reserve Bank of Dallas; May 21, 2020.

Recent HilltopSecurities COVID-19 Municipal Commentary

- ["Defund the Police" Meaning, Influence on Budgets and Pensions](#), June 8, 2020
- [Jobs Added, Unemployment Rate Down, Government Jobs Gutted](#), June 5, 2020
- [State & Local Relief Not Likely Until July; Delayed by Demonstrations, Other Agenda Items](#), June 4, 2020
- [Illinois Taps Fed's Municipal Liquidity Facility, Fed Expands Eligibility](#), June 3, 2020
- [Inherent Conflict in Returning to Normal](#), June 2, 2020
- [More Hurdles to Financial Equilibrium, Recovery, and Growth](#), June 1, 2020

The paper/commentary was prepared by Hilltop Securities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 859-1800, 833-4HILLTOP