

2020 4TH Quarter Economic Update

The global health and financial crisis remain. There are improvements in our economy, but the health crisis has only gotten worse and experts believe it will get worse before it gets better. The good news, effective, safe vaccines are on the way. More on this in the Covid-19 update below.

This month's economic update will be brief because the economy does not reflect the continued rise of infections and it's expected that the economy could slow down again.

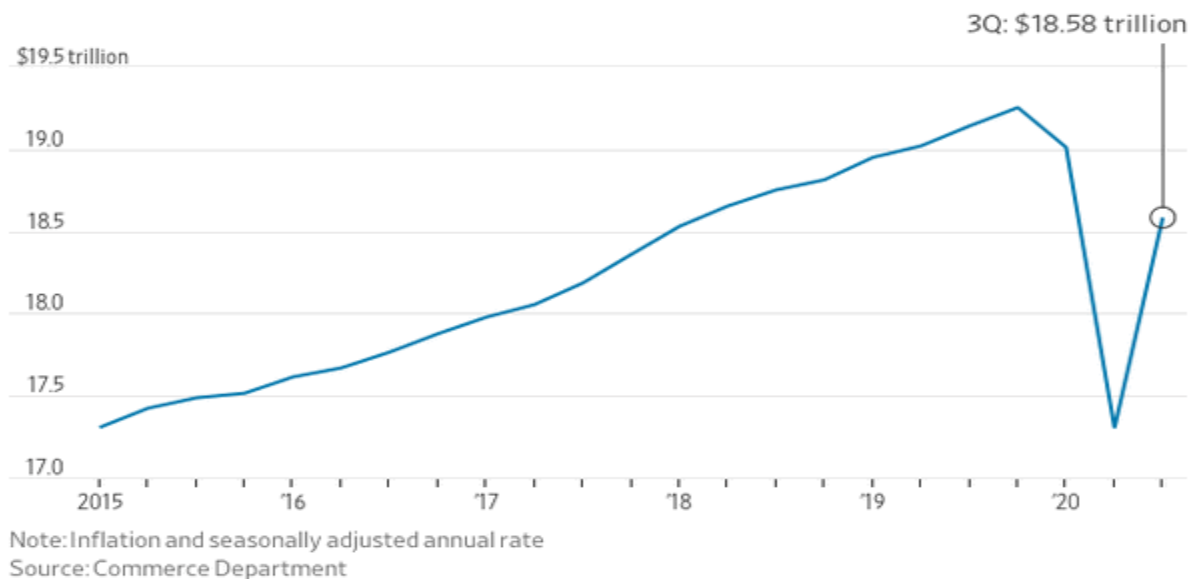
GDP and the Economy

The National Bureau of Economic Research in June 2020 declared the economy entered a recession in February. We remain in a recession.

Earlier in the year, I wrote that experts were describing the potential for the economy alphabetically (W, V, U, L). Many economists are now calling this a K economy with certain sectors of the economy doing well (housing, autos, technology, healthcare, grocers) and certain parts are struggling (airlines, lodging, large box, and small retailers, restaurants, small business, the service sector: dental, beauty salons, gyms, cleaning services).

The economic damage from the health crisis was brutal, but the economy has improved:

U.S. gross domestic product, quarterly



The economy was starting to recover, but the improvement is running into headwinds due to the 3rd wave of covid-19 infections that has started and could get worse as we enter the cold and flu season. Health experts believe that Thanksgiving, Christmas, and New Year could be super-spreader events. It could be a few months before we see a peak in infections and deaths.

Covid-19 Update

Below is a table that shows which countries are doing better controlling covid. There are about 200 countries and we are 18 in terms of controlling covid.

Covid Resilience Ranking

← Worse Better →

[Get info and sort on table headers ↕](#)

RANK	ECONOMY	BLOOMBERG RESILIENCE SCORE	1-MONTH CASES PER 100,000	1-MONTH CASE FATALITY RATE	COVID STATUS		QUALITY OF LIFE ▼
					TOTAL DEATHS PER 1 MILLION	POSITIVE TEST RATE	ACCESS TO COVID VACCINES
1	New Zealand	85.4	2	0%	5	0%	2
2	Japan	85	29	0.6%	15	8.1%	4
3	Taiwan	82.9	0	0%	0	1.2%	0
4	South Korea	82.3	10	1%	10	2%	2
5	Finland	82	129	0.3%	68	1.9%	3
6	Norway	81.6	281	0.2%	56	3.1%	3
7	Australia	81.2	1	0.6%	36	0%	3
8	China	80.6	0	0%	3	0.1%	5
9	Denmark	77	550	0.3%	135	1.8%	3
10	Vietnam	74.3	0	0%	0	0.1%	1
11	Singapore	74.2	4	0%	5	0%	0
12	Hong Kong	73.6	5	0.9%	14	0.1%	1
13	Canada	73.2	316	1.3%	305	6.7%	5
14	Germany	71.2	604	0.8%	168	9.5%	3
15	Thailand	70.2	0	0.5%	1	0.2%	1
16	Sweden	68.7	967	0.5%	634	12.6%	3
17	United Arab Emirates	67.5	371	0.2%	56	1.1%	1
18	United States	66.5	1,129	0.9%	776	14%	5
19	Indonesia	66.1	42	2.4%	58	12.5%	4
20	Ireland	65.1	308	1%	410	3.7%	3

Why have other developed countries done so much better than the U.S? Here are some of the reasons: countries much smaller geographically and population-wise; citizens are more homogeneous and unified and cooperative; focused, fast and effective leadership; aggressive testing and contact tracing; some governments have more power.

There is very good news – one vaccine has gotten emergency approval for medical, essential workers, and nursing home residents, and its staff. Other groups will be prioritized next year. It should be available to most citizens by late spring, early summer. Experts believe we could be back to normal, perhaps by late summer. Also, it’s expected that more vaccines will be approved.

It may take the U.S. longer to get to herd immunity because: the U.S. is much larger geographically and population-wise; it’s more diverse; the U.S. places a premium on personal liberty and freedom and its citizens do not like the government telling them what to do; experts are saying we need about 70% of the population to get the vaccine and to practice wearing masks, social distancing to achieve herd immunity; polls are showing that about 63% of the population are willing to get vaccinated, not enough; testing and contact tracing are also very important and we haven’t been good at this. Again it could take more time for the U.S. to achieve herd immunity where life can get back to normal. But, we can see the light at the end of the tunnel.

The story behind the fast development of the vaccine by U. S. company Pfizer and a small German biotech firm (BioNTech) is interesting. Several biotech companies around the world have been working on an unproven gene-based technology called [messenger RNA, or mRNA](#), basically, the molecules that carry genetic instructions telling cells what proteins to make. According to the WSJ, “ the genetic sequence of the coronavirus, which had recently been published, to synthesize mRNA would instruct cells to make a harmless version of the spike protein that protrudes from the surface of the virus. The defanged spike proteins would prompt a person’s immune system to produce antibodies that could fight off the real virus.”

[Click here](#) to read about mRNA, BioNTech, Pfizer, and how it works.

Other positives regarding ending covid could include home testing for covid and new leadership at the national level. Again, there is light at the end of the tunnel.

Employment/Consumer/Retail Sales

In past Updates, I’ve written about how our economy started from an agrarian economy to an industrial economy and now to a knowledge, technology, service economy. According to a recent WSJ article: “A sustainable recovery cannot occur until the service sector is fully open because it accounts for roughly 60% of GDP and over 85% of the employed workforce,”. Women, Blacks, and Hispanics make up many of these service employees. Economists call these service jobs low quality because they’re low pay, many are not full time, there is little job security, and lack benefits like healthcare and retirement programs. I’ve used the chart below to show how high-quality jobs are declining.

Job Quality Index



Note: Readings below 100 indicate a greater concentration in lower quality positions, and a reading above 100 greater concentration in high quality positions.

Source: Daniel Alpert, Jeffrey Ferry, Robert Hockett and Amir Khaleghi

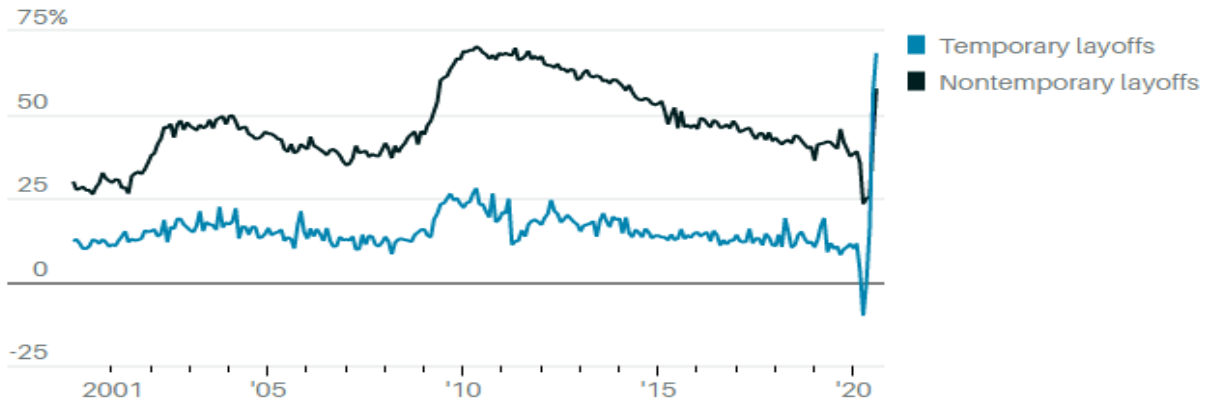
Employment was improving as many workers were being called back, but as the infections rise so do layoffs.

The counting of the unemployed is confusing and is probably undercounting the unemployed.

Temporary Inanity

Workers classifying their layoffs as temporary have now been out of work longer than those classifying their layoffs as permanent.

Share of temporary versus permanent layoffs



Note: Data are seasonally adjusted
Source: Deutsche Bank

As the chart shows, many temporary laid-off workers should be classified as nontemporary layoffs, unemployed.

Covid, high unemployment, elections have all impacted consumer confidence. It has probably found a bottom.

University of Michigan consumer sentiment

Index 1966:Q1=100, not seasonally adjusted

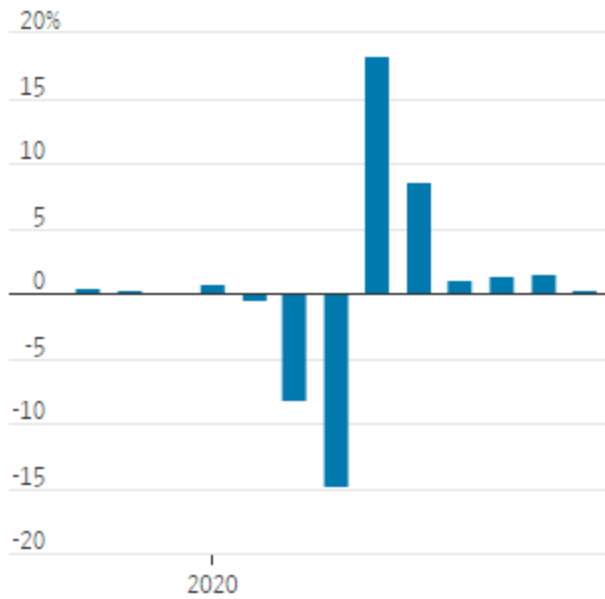


Source: University of Michigan via FRED

Lower consumer confidence is impacting consumer's consumption:

Slowing Retail Sales Growth

Percent change from prior month



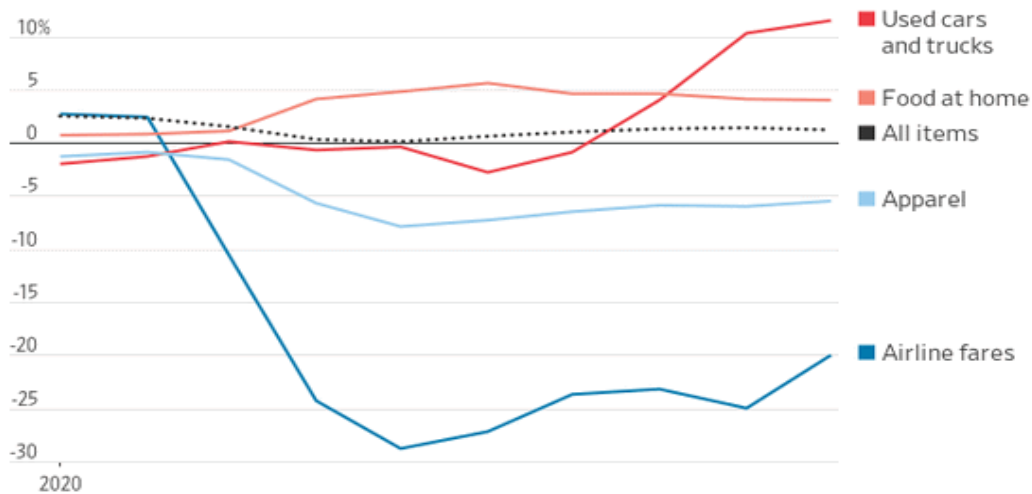
Note: Seasonally adjusted

Source: Commerce Dept. via St. Louis Fed

Retail sales plummeted, then recovered but are starting to stall.

Below is a chart to show where consumers are spending or are not:

U.S. consumer prices, change from one year earlier



Source: Labor Department

Consumers are not spending on travel and clothes. Consumers are spending on used cars and trucks. Housing is also doing well.

Below is a chart for housing:

Single-family existing home sales, at a seasonally adjusted, annual rate



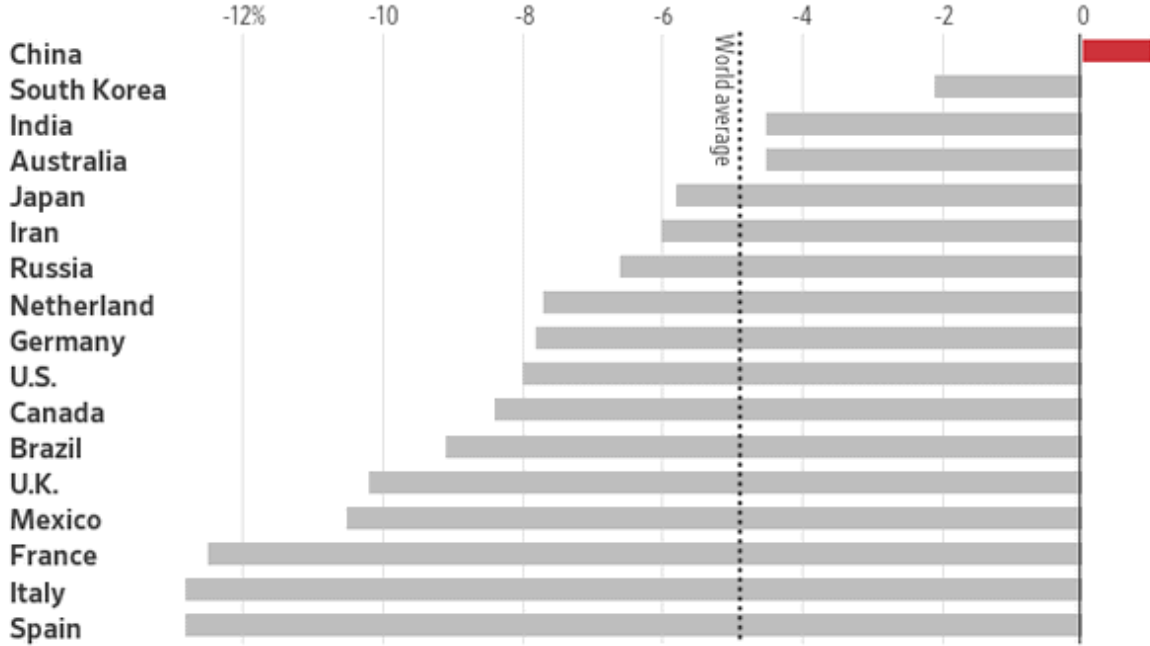
Source: FactSet

During most recessions, home sales suffer. With offices closed and many workers are working from home, some are moving into larger homes with a room for a home office. Some workers are also moving from the city to the suburbs.

Global Economy

Most of the global economy is in a recession:

Projected GDP for 2020, change from a year earlier



Note: June estimates
Source: International Monetary Fund

According to the chart, China is the only country that has recovered and is growing.

Summary and Conclusion

- According to many economists, we are having a K economy: certain sectors of the economy are doing well and certain sectors are struggling.
- The U.S. is entering a third wave of infections but there is light at the end of the tunnel thanks to vaccines that should be available to citizens all over the world next year.
- Most countries are in a recession.

I will provide my 2021 market outlook in January and my 2021 economic outlook in February. We should be out of our recession by next summer if we can beat the virus.