ECONOMIC OVERVIEW - Q4 2020

The Good, Bad and the Ugly

Let's reverse the sequence of this common catch-phrase for a headline and start with a brief look back, and The Ugly.

The nation's labor-market recovery stalled in December as a resurgence of coronavirus and state-imposed restrictions ended seven months of job growth. Employers cut 140,000 jobs that month, the first decline since the pandemic hit the country last spring, the Labor Department reported in mid-January. The jobless rate held steady at 6.7% nationwide, far below its April peak of 14.8% -- but still almost twice as much as pre-pandemic levels.

Restaurants and bars bore the brunt of the layoffs, shedding 372,000 jobs. The December losses capped the worst year on record, with the U.S. economy cutting 9.4 million jobs in 2020, the most in any year since records began in 1939 and nearly double the 5 million jobs eliminated during the 2009 Great Financial Crisis.

The Bad.
The number of Chapter 11 business bankruptcy filings rose 29% last year, even as plunging U.S. consumer bankruptcies kept overall U.S. filings at their lowest level since 1986. More than 7,100 business entities filed for Chapter 11 bankruptcy in 2020, according to legal-services provider Epiq Systems Inc.

Consumer filings are a lagging economic indicator and are expected to rise significantly in the second half of 2021, a senior vice president told the Wall Street Journal in a January 6 story. Government sponsored Coronavirus relief programs and mortgage/rent forbearance measures have stalled more filings for both businesses and consumers and are expected to get worse this year.

Jobless-claims data showed that 965,000 people applied for unemployment insurance in the week ended January 9, more than economists expected.

The Good.
Irrespective of how one feels about long-term inflation and national debt, a third stimulus package is being released and with Democratic control of the Senate, House and 1600 Pennsylvania Avenue, it is reasonable to expect another round of stimulus on top of the one that passed at the end of 2020, and perhaps another one in spring. Whether stimulus packages are effective or not is beyond our pay scale, yet they will put money into the economy and provide short-term boosts in confidence.

The vaccine is getting manufactured and distributed, albeit much less efficiently than had been hoped. President Biden seems committed to accelerating distribution and we should collectively hope he succeeds.

Despite the dreary jobs report from December, factories added 38,000 jobs in December and with deployment of the vaccine, there is cause for optimism. Barclays U.S. Economist Pooja Sriram was quoted in one report, saying: "It's reasonably hopeful this will be a one-off rough patch and we'll recover from there."

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In terms of economic outlook for 2021, most economists and analysts expect an uneven recovery and so much of it depends on containing the virus or adapting to it. However, HIS Markit is forecasting a robust job recovery, predicting nonfarm U.S. payrolls will increase by 6.7 million by December 2021, thus clawing back many of the net 9.4 million jobs lost in 2020. Economists expect hiring to start slowly this year and gain momentum as the year proceeds. Even if these forecasts are close to correct – and other economic organizations are calling for fewer new jobs, such as the University of Michigan (5.3 million) and Oxford Economics (5.8 million), the U.S. economy will be about 4 million jobs shy of pre-pandemic levels. And as smart people have earlier said, all real estate, regardless of product type, is driven by employment.

Optimism aside, no one expects the economy to return to pre-pandemic levels for several years. Hopes are clearing riding on a positive outcome from immunization. We shall see.