City National Rochdale®

AN RBC/CITY NATIONAL COMPANY

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On the Radar

FAQS ON THE MARKETS AND ECONOMY

Will the rise in COVID-19 cases derail the economic recovery?

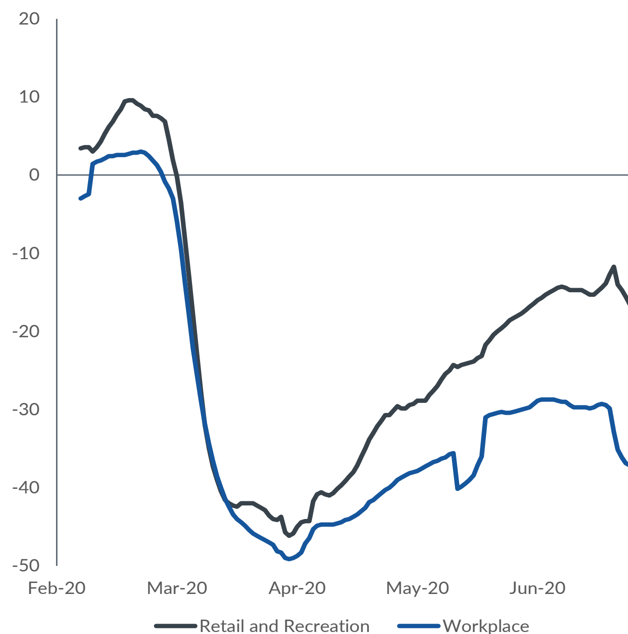
While the U.S. recovery looks entrenched and sustainable, the recent resurgence in COVID-19 cases across large swaths of the country is a reminder that ongoing infection fears and the continued requirement for physical distancing will likely prevent a full economic recovery anytime soon.

Officials have now paused or reversed reopening in states containing more than half the population, and high-frequency data across a number of indicators has already begun to reflect a flattening or even reversal in consumer behavior and sentiment.

At this point, we don't expect a return to the widespread state lockdowns. America is far better prepared today for a resurgence in COVID-19 infections than it was before the initial outbreak. Testing is more widely available, people have better access to protective gear such as masks and awareness of proper social distancing practices is greater.

Nevertheless, further restrictions will probably be needed over the coming weeks to bring outbreaks under control, slowing the recovery and keeping uncertainty elevated. At the same time, renewed fears of the virus are likely to convince many consumers to stay home and reduce spending on their own.

Activity Level
(% Change from Baseline)



Source: Google Mobility as of July 2020.

Looking ahead, we expect that the tension between the public health and the health of the economy to persist until better therapeutics and/or a vaccine is developed.

KEY QUESTIONS

What area of the economy is having the fastest return to pre-COVID-19 levels?

Is more fiscal stimulus forthcoming?

How many people have lost their job in the pandemic?

There have been some robust economic releases; what is the Fed thinking?

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What area of the economy is having the fastest return to pre-COVID-19 levels?

Retail sales is the closest to a V-shaped recovery of any of the major economic reports (see chart).

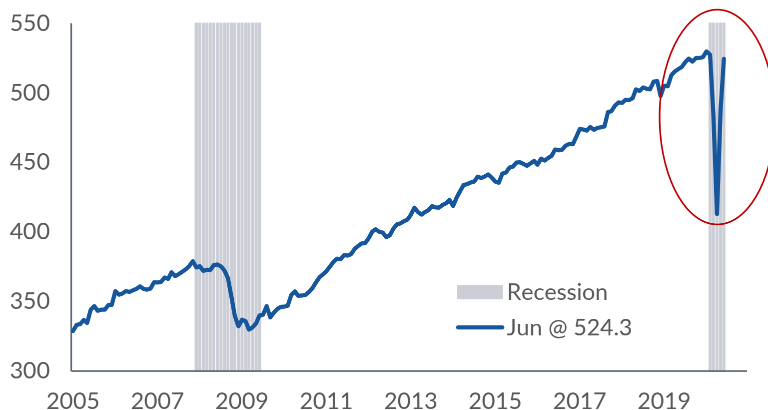
Retail sales stand at 99% of their February peak. They are 1.1% above the level of one year ago.

Consumers, fresh with $1,200 stimulus checks and a high saving level, have shopped until they dropped. In May, sales jumped 18.2%, and in June they were up 7.5%. It is quite an accomplishment; sales were down 22% at the nadir in April, now they are just down 1%.

The most significant jump in sales for the past two months has come from stores that were closed during the lockdown.

This is great news. But as the Fed warned last week in their Beige Book, strong gains like this are not sustainable. The big question is: how much of the recent momentum can be sustained into the autumn? The road ahead looks a little foggy. Some of the high-frequency data (volume of credit card charges) have been losing steam due to the COVID-19 resurgence.

Retail Sales
monthly value, seasonally adjusted, $, billions



Source: U.S. Census Bureau as of June 2020.

Is more fiscal stimulus forthcoming?

With bonus unemployment payments set to expire on July 31, lawmakers are facing a tight deadline this month to enact another aid package, just as a spike in COVID-19 cases is causing some states' economic reopenings to stall.

So far, the federal government has approved over $3 trillion in emergency spending to confront the pandemic and manage its economic fallout. One-time stimulus checks and the extra $600 in weekly unemployment benefits have effectively cushioned incomes amid widespread layoffs, and, along with other measures, helped prevent a more prolonged recession from developing.

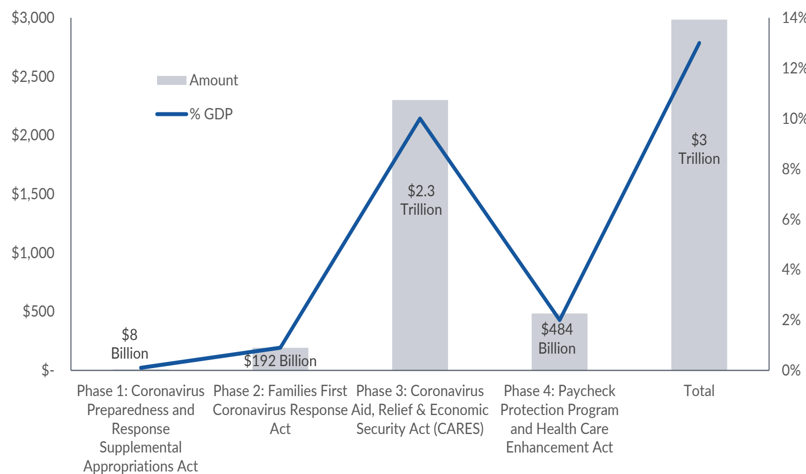
While there is general agreement that more aid is needed, the sticking point continues to be reconciling the priorities between both political parties, as well as the size of additional spending. Democrats are pressing for another big bill along the lines of the $3 trillion Heroes Act passed by the House in May, but the White House and many Republicans want to cap the next, and possibly the last, aid package at $1 trillion.

Many issues are on the table, including an extension of boosted unemployment payments, another round of direct cash payments, increased assistance to state and local governments, funding for schools and students, hazard pay and liability immunity.

Our sense is that a compromise will ultimately be reached. Both parties have incentive to get something done, particularly with elections fast approaching, and there is room for negotiation.

For investors, the concern is that markets have already priced in additional fiscal stimulus, and should officials disappoint, sentiment could quickly reverse, leading to a drop in stock prices.

Federal Pandemic Response So Far
($ Billions)



Source: Bureau of Economic Analysis as of June 2020.

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How many people have lost their job in the pandemic?

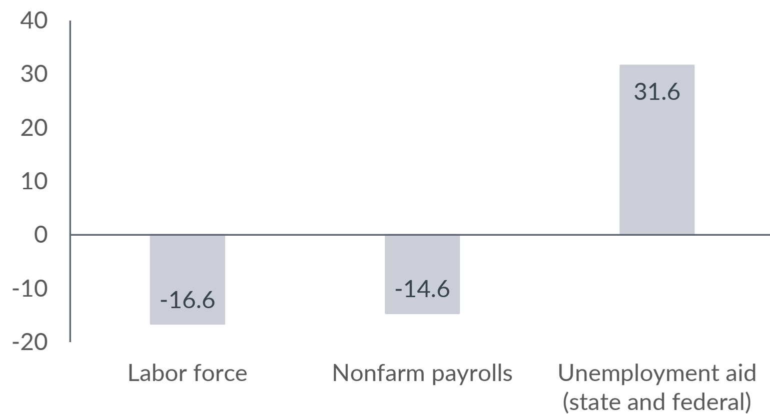
That is a good question, but it is not an easy one to answer. It depends on what data you look at (see chart).

If you utilize the labor force data, which is used to calculate the unemployment rate, there are 16.6 million fewer workers than the recent high in December 2019. If you analyze the data used for calculating the change in nonfarm payrolls, there are 14.6 million fewer workers since the last high in February. Both of those data series are based on monthly surveys.

Another method is to calculate the increase in the number of people collecting unemployment insurance. That number is a staggering 31.6 million. Before the pandemic, this number was around 1.7 million. It represents the 17.3 million receiving state unemployment insurance and 14.3 million who are collecting federal Pandemic Unemployment Assistance. The program was established as part of the CARES Act, which expanded jobless benefits to workers who did not qualify for state aid (gig workers, self-employed, part-time, etc.).

Although we do not know the actual number, the important news is that the worst of the labor strife is behind us.

Change in Key Labor Reports
net change from recent peak, millions



Source: Bureau of Labor Statistics as of June 26, 2020.

There have been some robust economic releases; what is the Fed thinking?

The Fed has become more upbeat and optimistic about the economy, as reported in the Beige Book, the Fed's report of anecdotal information about the economy that is published before their FOMC meetings.

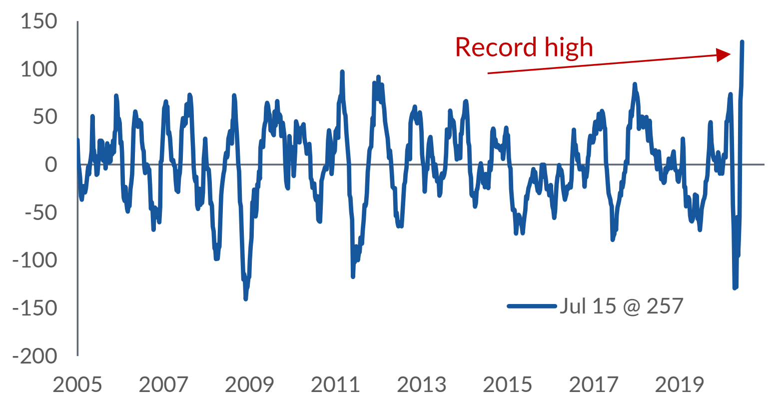
By and large, economic data for May and June has come in stronger than expectations. For example, nonfarm payrolls jumped a record 2.7 million in May, only to be followed by an even more extreme record of 4.8 million in June. There have also been substantial gains in retails sales and manufacturing.

The Citi Surprise Index, which measures data surprises relative to market expectation, is at an all-time high (chart), a sharp reversal from hitting a record low on April 30 of this year.

The Fed is a little less sanguine about employment and wages, indicating that future employment gains will be linked to increased demand.

They also know the economy is not out of the woods. Strong economic releases are not sustainable for the long term. There is still a vast output gap, which will result in the Fed not having to change interest rates for several years.

Citi Economic Surprise Index — U.S.



Source: Citigroup Global Markets, Inc. as of July 15, 2020.

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