

A Chilled But Not Frozen Economy

It's shaping up to be a cold winter for the U.S. economy, as the pandemic continues to rampage throughout the nation and wreak havoc on all forms of activity that involves in-person transactions. State and local governments are tightening business restrictions and urging residents to more diligently adhere to social distancing protocols. With a new variant of the coronavirus amplifying the health crisis and the vaccine rollout falling short of expectations, conditions are likely to get worse before they get better. Covid-19 has already taken a big toll on jobs and retail sales, with both ending 2020 on a very weak footing.

But while the current economic landscape is feeling the chill, it should thaw out as winter turns to spring. Despite a distressingly slow start, the immunization campaign is steadily making its way through the population, and at least two more vaccines should be approved within weeks; if all goes according to plan, the majority of Americans should be inoculated by mid-year, bringing the nation closer to the much-heralded herd immunity. When that milestone is reached, lockdown restrictions will be lifted, allowing businesses to reopen and accommodate a torrent of pent-up demand. Hence, the winter doldrums could well be followed by a spring/summer mini-boom.

Importantly, after months of political bickering, Congress finally agreed to a \$900 fiscal relief package at the end of December that should cushion the economy from the winter downdraft. And with Democrats winning the Georgia runoff election, the party will have a "soft" 50-vote Senate majority. That, in turn, enhances the Biden administration's chances of enacting more of its ambitious fiscal agenda. The first installment of that agenda was announced in the second week of January, a \$1.9 trillion proposal that is more than three times larger than the fiscal stimulus following the Great Recession. Hence, not only is there light at the end of the tunnel, the other side is looking much brighter than hoped even a few weeks ago.

A Dark Winter

As the curtain rises on 2021, the outlook is one of contrasts. Over the near term, things look extremely grim. The economy shed 140 thousand jobs in December, the first contraction in payrolls since the onset of the recovery, and households zipped up their wallets during the holiday season. The setback in jobs in the final month of the year likely continued into January. Job listings fell, lockdown restrictions tightened in many states, and first-time claims for unemployment insurance surged.

Small businesses have been particularly vulnerable to the ill effects of pandemic restrictions and, understandably, turned more pessimistic as cases of the virus surged over the winter. The small business optimism index, compiled by the National Federation of Independent Businesses, slumped by 5.5 points in December, with nine of its ten components taking a dive, led by a 24 point plunge in the net share of owners expecting business conditions to improve in coming months. The survey, however, was taken before the latest \$1.9 trillion fiscal relief package was announced, which included \$50 billion of loans and grants targeted for small businesses under the revived Paycheck Protection Program. This resuscitation of the PPP should provide crucial support for many small companies and help them survive the difficult months ahead.

That said, the fiscal relief will not filter through to beneficiaries right away. As noted, Biden's party has a "soft" majority in Congress and the huge dollar amount he is proposing is likely to meet with considerable resistance among lawmakers. Keep in mind that the \$1.9 trillion comes on the heels of December's \$900 billion fiscal stimulus and the \$2 trillion blockbuster deal Congress agreed to last March. Add it all up, and the \$5 trillion of government stimulus in less than a year equals almost 25 percent of GDP, a fraction that is too much to bear for many legislators who dislike big government in the first place and who believe that so much stimulus is overkill relative to the current crisis. We suspect that Biden's proposal will undergo some tense negotiations and eventually get watered down closer to \$1 trillion.

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Financial Indicators

	November	October		September	August	July	June	May	12-Month Range	
		October	September						High	Low
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3-Month Treasury Bill Rate	0.09	0.10	0.11	0.10	0.13	0.16	0.13	0.13	0.16	0.09
5-Year Treasury Note Rate	0.39	0.34	0.27	0.27	0.28	0.34	0.34	0.34	0.39	0.27
10-Year Treasury Note Rate	0.87	0.79	0.68	0.65	0.62	0.73	0.67	0.67	0.87	0.62
30-Year Treasury Bond Rate	1.62	1.57	1.42	1.36	1.31	1.49	1.38	1.38	1.62	1.31
Tax-Exempt Bond Yield	2.21	2.35	2.23	2.15	2.14	2.20	2.40	2.40	2.40	2.14
Corporate Bond Yield (AAA)	2.30	2.35	2.31	2.25	2.14	2.44	2.50	2.50	2.50	2.14
Conventional 30-Year Mortgage Rate	2.77	2.83	2.89	2.94	3.02	3.16	3.23	3.23	3.23	2.77
Dow Jones Industrial average	29124	28005	27733	27821	26386	26062	24271	29124	29124	24271
S&P 500 Index	3549	3419	3366	3392	3208	3105	2920	3549	3549	2920
Dividend Yield (S&P)	1.58	1.75	1.68	1.62	1.72	1.84	1.88	1.88	1.88	1.58
P/E Ratio (S&P)	28.4	25.6	26.5	26.8	25.1	23.8	21.2	28.4	28.4	21.2
Dollar Exchange Rate (vs. Major Currencies)	114.4	116.2	116.7	117.4	119.1	120.0	123.0	123.0	123.0	114.4

* Monthly Averages

ECONOMIC INDICATORS

	November	October		September	August	July	June	May	12-Month Range	
		October	September						High	Low
Housing Starts (In Thousands)	1547	1528	1437	1373	1487	1265	1038	1617	934	934
New Home Sales (Thousands of Units)		999	1002	1001	979	840	698	1002	570	570
New Home Prices (Thousands of Dollars)		331	332	321	330	341	317	341	310	310
Retail Sales (% Change Year Ago)	4.1	5.5	6.1	3.6	2.7	2.2	-5.6	6.1	-19.9	-19.9
Industrial Production (% Change Year Ago)	-5.5	-5.0	-6.3	-6.6	6.6	-10.5	15.7	15.7	-16.3	-16.3
Operating Rate (% of Capacity)	73.3	73.0	72.3	72.3	71.8	68.9	64.7	77.2	64.1	64.1
Inventory Sales Ratio (Months)		1.31	1.32	1.32	1.33	1.37	1.50	1.50	1.32	1.32
Real Gross Domestic Product (Annual % Change)			33.1			-31.4			33.1	-31.4
Unemployment Rate (Percent)	6.7	6.9	7.9	8.4	10.2	11.1	13.3	14.7	3.5	3.5
Payroll Employment (Change in Thousands)	245	610	711	1493	1761	4781	2725	4781	-20787	-20787
Hourly Earnings (% Change Year Ago)	4.4	4.4	4.7	4.6	4.6	4.9	6.6	8.0	3.0	3.0
Personal Income (% Change Year Ago)		5.5	6.5	5.9	9.1	8.2	9.6	14.3	1.8	1.8
Savings Rate (Percent of Disposable Income)		13.6	14.6	15.1	18.6	19	24.7	33.7	7.2	7.2
Consumer Credit (Change in Mil. Of Dollars)		7.2	15.0	-8.6	13.2	18.7	-12.9	21.5	-64.1	-64.1
Consumer Prices (% Change Year Ago)	1.2	1.2	1.4	1.3	1.0	0.7	0.2	2.5	0.2	0.2
CPI Less Food & Energy (% Change Year Ago)	1.7	1.6	1.7	1.7	1.6	1.2	1.2	2.4	1.2	1.2
Wholesale Prices (% Change Year Ago)	0.7	0.5	0.5	-0.2	-0.4	-0.8	-0.8	2.1	-1.0	-1.0