

## The Markets & the Economy - What We're Watching

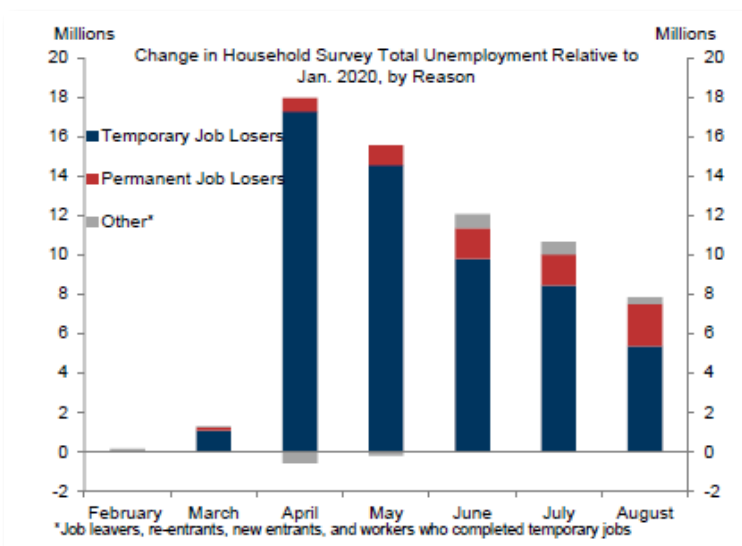
### Top Theme of the Week:

- › Strong market recovery but slower economic recovery – all eyes are on the consumer

It has been just over six months since “stay-at-home” orders shut down the economy in an effort to contain the spread of Covid-19. While the stock market has recovered all of its losses in just 126 trading days, the fastest ever such climb in history, the economy is recovering at a more modest pace. The strength and endurance of the recovery will hinge on the health of the consumer as this is the primary driver of economic growth in the US.

Gross Domestic Product (GDP) is a comprehensive measure of US economic activity. GDP is the value of the goods and services produced in the US, and the growth rate of GDP is the most popular indicator of the nation’s overall economic health. Consumer spending typically accounts for two thirds of all economic activity.

High unemployment and broader uncertainty are impacting consumer spending habits. The continued recovery in retail sales and consumer spending will be highly dependent on the recovery in the labor markets. While employers have continued to hire across industries, there are still 11.5 million fewer jobs than in February with the unemployment rate standing at 8.4%. On a positive note, data indicates that 71% of the job losses since February are categorized as temporary.<sup>1</sup>



US retail spending rose 0.6% in August for the fourth straight monthly increase, although at a slower pace as some extra unemployment benefits expired. In addition, July’s gain was revised lower to a 0.9% increase from and previously reported gain of 1.2%.<sup>2</sup> Retail sales are a large component of consumer spending and typically increase as the economy improves and Americans feel more confident to spend. Not all industries are benefiting in the same fashion. Less virus sensitive businesses such as fast food restaurants and discount stores are showing some stability and have recovered to pre pandemic levels, while more virus sensitive businesses such as amusement parks and travel continue to struggle. A more detailed look at consumer spending will come in a separate report when Personal Consumption Expenditure data is released on October 1<sup>st</sup>.

<sup>1</sup> Image Source: Department of Labor, State of California, Goldman Sachs Global Investment Research

<sup>2</sup> US Census Bureau

Another positive for consumer spending is that additional fiscal policy relief is on the horizon. President Trump recently signed an executive action that freed up \$44B of additional aid for states to increase federal unemployment benefits by \$300 per week. It is anticipated that the funds will be distributed within the next two weeks, and it is expected that the benefits will be backdated to August 1st. This means that lump sum benefits of around \$1,800 could be reaching recipients by the end of the month.<sup>3</sup> Spending by individuals receiving unemployment benefits contributed significantly to consumer spending during the last round of fiscal stimulus, earlier in this pandemic.

The Federal Reserve announced on Wednesday that it will keep interest rates near zero for the foreseeable future. Rates are unlikely to alter until the US economy heals from the effects of the Covid-19 pandemic, we have reached maximum employment, and inflation has risen to 2%. With a heightened focus on achieving maximum employment and aiming for higher inflation, we are hopeful it will help create positive impacts to consumers and continue to fuel our economy.

For questions or more information, please contact your local IMG professional. For additional insights from IMG experts, please visit our new website's [Stock Market Insights](#) page and follow us on [LinkedIn](#).

*Commentary is reflective as of the close Thursday, September 17, 2020.*

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<sup>3</sup> Strategas