

# Global Strategy Bulletin

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## What Would a “V”-Shaped Economic Rebound Look Like? Reopening Statistics for Retail Sales Look Like “Jailbreak” for the Homebound

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### Overview:

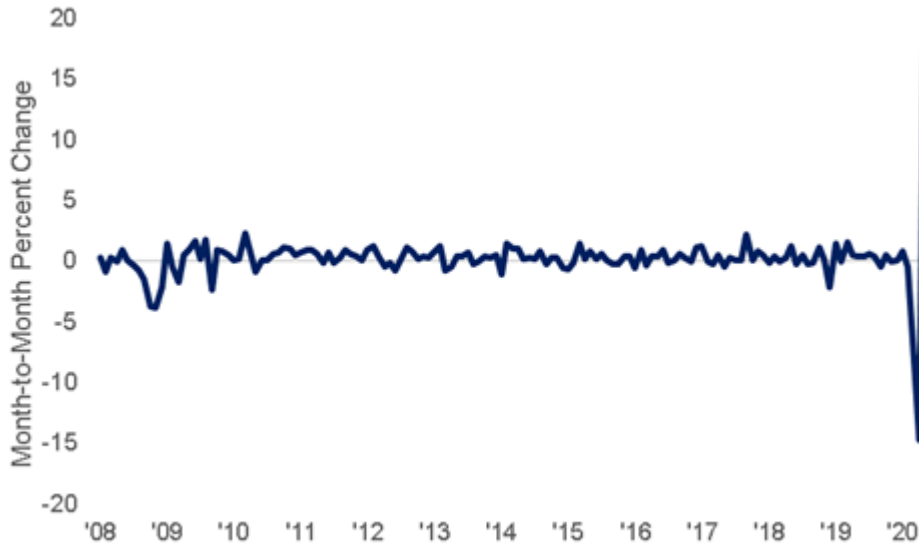
- US Retail sales jumped 17.7% in May after a 14.7% drop in April, both record gains and losses for monthly periods (see figure 1). This reflects the highly unusual aspects of required shutdowns of the economy and subsequent reopening, along with strong income support measures. Core retail sales rose 11.0% after dropping 12.4%. Unit vehicle sales were already reported up 42% for May, though they remain far below January levels.
- Reflecting a record 78% share of job losers reporting they were on temporary layoff, US employment rebounded by 2.5 million in May after a 20.7 million decline in April, also both record gains and losses (see figures 2 and 3).
- Large income supports were provided during the shutdown phase, boosting the personal savings rate to 33%. While a high level of gross layoff are still taking place, the reopening and “recall” effect appears to overwhelm this.
- US industrial production rose 1.4% in May after a 12.5% drop, closely mirroring the incipient rebound in employment.
- The US and China have now both seen large negative and positive swings in demand and output associated with Covid-19. US civil rights protests may be a factor in assessing forthcoming June data. Overall, however, it appears that US demand data are recovering faster than production with the opposite pattern in China (see figures 4-5). We expect a “catchup” for employment and production in the US in time.

### Comment:

- Sample-based economic data are subject to significant revisions. But the breath of many different reliable data sources suggests a sharp rebound following massive disruption, consistent with our view for shutdowns and reopenings to create massive negative and positive swings. This is just as China had reported earlier. The timing of the US reopening was somewhat sooner than our assumptions, with the first reported net gain in employment about two months earlier than we expected.
- **Many at least initially mistook the economic declines as permanent. The initial pace of rebound will also not be sustained. There are risks of renewed infections in areas that did not contain the virus well as discussed in our [weekend report](#). However, only renewed shutdowns would collapse the economy again if monetary and fiscal policymakers remain steadfast in seeing the recovery through.**
- While the public health issue is a complication, investors and forecasters need to consider that the *duration* of the shutdown interacts with the solvency of firms in a non-linear way. (A short complete loss of revenue for firms may have a far less negative impact than a very long period of modest losses.) As investors should not ignore continued Covid risks, they should also recall the early warnings regarding the risks of a prolonged shutdown.
- We have estimated a 40% decline in 2Q real GDP and 30% annualized gain in 3Q since April. The earlier timing of the reopening impact could *diminish* the swings when looking at the calendar quarter periods.

- A more limited rebound in “social-close” activities and further drops in lagging sectors points to a “partial recovery” that will only gain strength in time. This, however, is fuel for a long-lasting economic recovery.

**Figure 1. Monthly Retail Sales Largest Jump After Largest Decline**



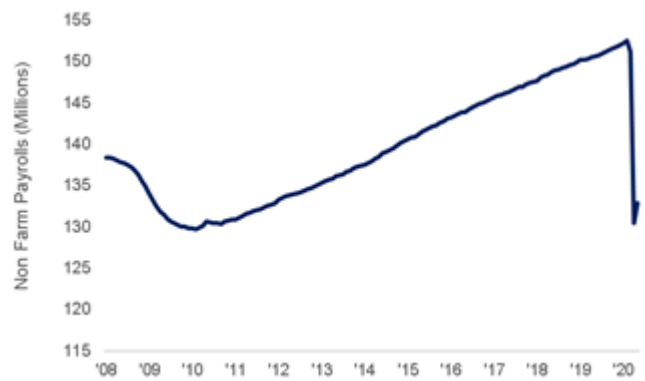
Source: Haver Analytics as of June 16, 2020

**Figure 2. Job Losers on Temporary Furlough as % of Total**



Source: Haver Analytics as of June 16, 2020

**Figure 3. Non-farm Payrolls**



Source: Haver Analytics as of June 16, 2020.

**Figure 4. US Retail Sales and Industrial Production**



Source: Haver Analytics as of June 16, 2020

**Figure 5. Chinese Retail Sales and Industrial Production**



Source: Haver Analytics as of June 16, 2020.

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