



Bill Owens: Confounding And Confusing Events

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A Bloomberg article reported that Wall Street was warning corporations to gather as much cash as possible as we drift into the second half of the year. The obvious concern is the number of people who are unemployed, and the likely decrease in spending which that will cause even if another pandemic relief package is passed by Congress. This dire warning coincides with many other economist views that the fall, September, October, November and December could be particularly treacherous, and thus, the acquisition of cash could be very important, not only for corporations but individuals. Something more to think about as part of this difficult period.

In response to the climbing employment numbers, the stock market jumped ahead, but a key indicator that we will need to focus on is consumer spending. We know now that capital goods purchases have declined dramatically, and continue to be well below the 50-point mark which signals an economy that will continue to move forward in the future. Absent reaching that 50-point mark there is concern that manufacturers have existing excess capacity, which until that is exhausted will restrain growth, and thus, the recouping of jobs.

The Chairman of the Joint Chiefs General Milley publicly apologized for participating in the campaign stunt put on by POTUS last week in Lafayette Park and nearby church. Will General Milley last as Chairman? Where are the Republican voices of support – silent including Congresswoman Stefanik with only Lindsey Graham voicing support. I know General Milley as he was the 10th Mountain Commander during my term in Congress. I applaud him and hope you will too.

In the world of US/China trade, a couple of recent developments. China has come back as our largest trading partner while trade with Canada and Mexico falls, and our overall trade fell 24% with all trading partners worldwide. Mexico, on a year to date basis is still our largest trading partner, but being surpassed by China as China moves back into position in the past month. We also resumed flights with China as each country is now permitted a very limited number of flights into the other's airports. This resumption will have no major impact on the economies of either country, nor bring back profitability to the airlines, but it is symbolic and does demonstrate some level of cooperation between the two countries who have been having something of a go of it over the past several months.

Canada's international trade plummeted as auto and oil shipments, in particular, slumped, with total exports fall 29.7% to its lowest level in more than 10 years, and imports declined 25.1% to the lowest level since February 2011. None of this is unexpected, but nonetheless remains problematic.

In the world of science, National Geographic reports that a shark apparently fought off a deep-sea squid, which was determined by the battle scars left on the skin of a “dwelling shark”. The size of a giant squid fits squarely into ancient mariner’s reports of huge creatures rearing up from the sea to devastate ships, but in recent years the only evidence of these giant squids has been carcasses that may wash up on a shore from time to time, or an investigation like the National Geographic has done. I thought this might create a well-deserved diversion in an otherwise tumultuous and difficult week.

The Associated Press is reporting that the vast majority of economists are predicting a significant slump in the economy for the remainder of 2020, and don’t see a significant upturn until the latter half of 2021. They do anticipate that there will be some growth in the third and fourth quarters, but recovery from the massive hit to the economy including layoffs will take a much longer period of time. Another factor brewing, of course, is the spiking of Corona virus cases in Puerto Rico and 14 states, as well as the obvious (observable) failure of people to wear face masks, and social distance rejecting these acts as some type of weakness. I am all for reopening the economy, but it has got to be done sensibly and with precautions. Now that 21 states are experiencing dramatic case increases and more importantly dramatic increases in hospitalizations, will the no mask crowd get it, probably not.

Sticking with the economy, Bloomberg suggested this week that the booming stock market could ultimately negatively impact the recovery, particularly as Republicans see it as a sign that there is no more need for stimulus. Consumer spending is dropping, even with the stimulus packages, and even if there is a further stimulus as we get into the third and fourth quarters, that spending could dry-up even further. If it does, that could easily sink the recovery. If we look at just recent history, we will see that it took several weeks, if not more, for the stimulus packages to take hold and to allow the economy to continue to chug along at some level. Should the Republicans in Congress panic, say mid-July, as spending plummets, the impact of what they might do would not take hold until at least mid-August and maybe the end of August, during which period more damage would be done. Admittedly, these are all difficult and complex decisions, but when you have most leading economists, the head of the Federal Reserve, all saying you need to do more, members of Congress should listen to people who have expertise, not their far-right supporters. Just a short follow-up; if economists were saying don’t do anything further, I would support that too, because I don’t have the expertise to make that complex call.

The policy being put forth to defund and/or eliminate police departments is another one of those highly-emotional, but impractical ideas. You may be able to find some small towns that due to their cultural make-up and size might be able to manage without a police force, but I think even that is unlikely because crimes will be committed and will require investigation and apprehension. A professional analysis needs to be done to determine changes in training and screening of officers. On the other side of the coin, additional funds need to be provided to poor communities to drive education and other social and educational projects and a source is police funding.

An article in the times by Stephanie Kelton, a PhD economist and the author of “Deficit Myth”, proposes that government spending and the creation of deficits and debt are not particularly troubling irrespective of the conventional wisdom (which I certainly share) that the level of debt we have been accumulating is unsustainable. The article essentially says that running deficits (printing money) will not have long term negative economic consequences, and in fact, when

weighed against the short-term consequences to small businesses and individuals, if the government fails to continue to provide relief (print money) then the good outweighs the bad. The author quotes Prime Minister Margaret Thatcher of Britain decrying government deficits and debt, and the need to attempt to balance spending with income is not a real worry. This proposal certainly conflicts my long-held beliefs. I commend the article to you and her book, "Deficit Myth".

US/China relations continue to drive toward a cold war, including the targeting of our allies by Beijing says Herbert A. Stiefel of the Cato Institute. We had a trade war before COVID-19 erupted, and now POTUS is blaming China, the US is imposing greater scrutiny on Chinese firms on Wall Street, the Huawei case remains active in Canada likely moving towards extradition of the Huawei executive to the United States, the tension over Hong Kong and the failure of China to live up to its agreed AG purchases. The article also talks about a concept known as "Wolf Warrior Diplomacy" which is actually based upon Chinese movies where Chinese fighters defeat adversaries globally. We will have to see what POTUS does with this. My supposition, not much, look at North Korea.

Business bankruptcies are surging with a growing number of companies filing for Chapter 11 protection, resulting in a 48% increase from May of 2019, with increases also occurring in March and April. We know the name brands that have gone the bankruptcy route including Gold's Gym, Hertz, J. Crew, JC Penny and Neman Marcus, but think of the hundreds of what we refer to as medium and small size businesses who have had to walk down this path, as well. My concern is the long-term economic impact as we go into the fourth quarter of this year, and the first half of next, if those small and medium size businesses are substantially weakened and unable to rise as the economy comes back.

Canada and the US are reported to be prepared to continue the closure of our border until late July. There are many reports coming out of Canada that Canadian citizens perceive that the US has not gotten COVID-19 under control, nor that Americans are complying with the reasonable requirements necessary to reopen. A brief statistical review I think is worth noting. Canada has had a little over 7,800 deaths and 96,000 cases in a population of approximately 35 million, while the US has had over 2 million cases, and 110,000 deaths in a population of 350 million. I'll let you do the calculations but the difference looks immaterial to me.

POTUS is planning to impose tariffs on China and the EU as a result of tariffs they have imposed on lobster imported from the United States. This appears to be a concession to lobster man, particularly in the northeast. The tit for tat continues as POTUS' is truly unable to negotiate a rational trade policy.

It looks like the jobs claim decline of last week has been largely erased by the jobs claim increase of this week. Clearly, this is going to be something of an up and down process and getting too excited about one result going in either direction, is not a basis for policy decision-making.