The Quarterly Perspective

After the COVID Winter, Spring is Arriving for the U.S. Economy.

U.S. economy on pace for multi-decade high in growth rate.

It has been a whirlwind twelve months - full of fear, panic, anxiety, and, now, reason for sustained optimism. As immunity builds throughout the US and the COVID numbers decline, it appears an economic spring is arriving. While threats still remain, the evidence is pointing to a sharp accelaration in U.S. growth.

Consider the following recent trends:

- After job growth slowed under escalating winter social restrictions, new jobs have roared back. The March BLS employment report showed 916,000 jobs added to the economy – clearly benefiting from the re-opening of businesses.
- Private residential construction (i.e. homebuilding) has grown by +21.1% from pre-pandemic levels as builders struggle to meet surging demand.[1]
- Spending on retail goods is up +20.8% from pre-pandemic highs.[1]
- With demand surging, manufacturers are struggling to keep up. Not only are new orders and production at the highest levels since 2003, customer inventories are depleted and order backlogs are at the highest in the survey's history from the early 1990's.[2]

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More evidence suggests these demand trends won't necessarily end anytime soon. As of February, the personal savings rate across the U.S. was 13.6%, the highest rate since 1975.[3] This snapshot was before the latest March stimulus that allocated $380 billion more to households in the form of direct payments. In essence, an economy already showing a rapid acceleration is full of potential fuel for further consumption and growth.

Where Does All This Lead?

Altogether, the expectation for U.S. GDP growth in 2021 is between +6% and +7%.[3] To put it in context, if realized, it would be the fastest annual GDP growth since 1983.

While the outlook for sustained growth is improving, it doesn't mean the economy is free from threats or problems. The backstop measures from the Federal Reserve have almost amplified risk taking across markets and perplexing distortions are appearing. Likewise, lingering social restrictions are hindering supply chains and their ability to meet elevated demand. Until resolved, the effect is likely to be rising consumer prices and building inflationary forces. A successful transition into a post-COVID world not only means achieving wide-spread immunity but also the ability for commerce to move forward unhindered.

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Finally, What's It Mean For Investors

Shock events not only shock markets, they shock emotions and investor confindece too! Instinctive reactions to the tumultuous 2020 might lead investors to remain fearful. Afterall, the world today is a very different place than where we started in Janaury 2020.

Nonetheless, our present situation illustrates the importance of understanding market cycles with a deep historical perspective and tracking the evidence along the way. Recessionary economies (like the one we had in 2020) do eventually heal and that healing is upon us.

Source:
[1] U.S. Census Bureau.
[2] Institute of Supply Management
[3] U.S. Bureau of Economic Analysis.

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ABOUT

Harman Wealth Management

At Harman Wealth Management, we provide private, advanced, independent planning and investment management to individuals, families, and institutional clients.

We value in-depth economic research, evidence-based investment methods, and rigorous risk management. We are committed to insightful, objective solutions, and always working solely for the best interest of our clients.

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Millennial Homebuying Surge Foreshadowing Improved U.S Growth In The Coming Decade

Climb in Housing Activity Partly Driven by Demographics

"The Millennials – that often mischaracterized and misunderstood generation – have finally become home buyers and they are making a massive impact."

Several factors have contributed to the latest surge in housing activity, but perhaps the easiest explanation is purely demographic. Yes, The Millennials – that often mischaracterized and misunderstood generation – have finally become home buyers and they are making a massive impact.

Bigger Than the Boomers, Finally Adulting

The Millennial generation is classified as those Americans born between 1981 and 1996. In sheer size the Millennials, estimated at 72.1 million, now outnumber baby boomers.[1] This means their economic impact is enormous and now beginning to kick in.

One classic stereotype is that the Millennials, despite reaching their twenties and early thirties, delayed adulthood preferring for the fun and freedom of something in between. This "adultolescence" meant the timing of their economic force was very different from previous generations. Delayed starts to careers lead to later ages for marriage, family formation, and homeownership.

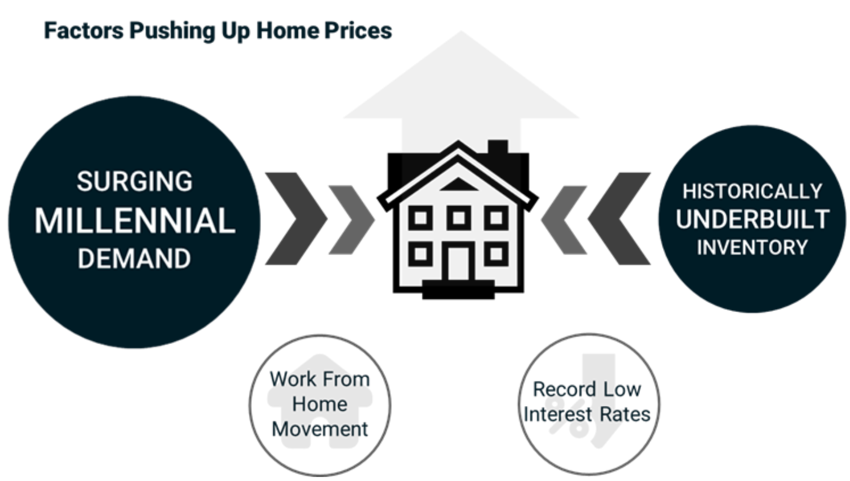
But now, the oldest Millennials are turning forty, and many are finding the suburbs more attractive for their growing families. Priorities have shifted to more space and what schools their children will attend. Meanwhile, the openness of the "work from home" movement is making commuting less of a burden.

Demographics Take Over

"Looking into the next decade, the Millennial bulge is really an under-recognized and encouraging aspect for the U.S. economy."

Of course, there are other important reasons for today's housing dynamics. For one, home construction did not maintain pace with population growth over the last ten years causing the ratio of home supply to reach its lowest level in decades.[2] Another appeared when home mortgage rates took a record-low dive in 2020, enticing many to quickly take the leap into homeownership. But all in all, it is the swell in thirty-somethings that factors in most as this growing population segment releases unrelenting pent-up demand.

Looking into the next decade, the Millennial bulge is really an under-recognized and encouraging aspect for the U.S. economy. Their effect on U.S. economic growth won't just be confined to just housing, and instead, will reach many other aspects of the economy. Furthermore, Millennials are entering the phase of life where earnings growth and contribution to GDP will be highest. In many ways, the Millennials effect on housing is just a simple foreshadowing of how they will positively lift GDP at a time when it could be needed most.



Source:
[1].Pew Research Center.
[2] FreddieMac.

Jobs Returning at the Fastest Pace on Record

A surging (and re-opening) economy continues to feed the recovery in jobs.

"After peaking in April of last year at 14.2%, the unemployment rate has rapidly fallen to 6.0% in March. By improving more than 8% in just an eleven-month span, this is the fastest rate of recovery in history.[1]"

It's astonishing, one year after unprecedented shutdowns devasted businesses and employment, the U.S. the economy is finding itself in a jobs boom. A year ago in May, when reports showed the initial devastation to employment due to shutdowns, the outlook was tremendously bleak. Expectations projected severe elevated unemployment for years ahead. But fast forward to today. In just the first three months of 2021, over 1.6 million jobs have returned.[1] With further openings throughout 2021, the U.S. could easily see the highest year of job growth on record.

While the current 6.0% unemployment rate is comparatively high relative to the ultra-lows of 2019 [1], the jobs market is still undergoing a remarkable recovery. Let's explore three key points to explain the optimistic outlook of the jobs market:

1. **LOSSES WERE DISPROPORTIONATE ACROSS SECTORS**
Job losses due to COVID shutdowns were disproportionately felt in the leisure and hospitality sector. Initially, the industry lost over 48% of all workers. Since last April, though, over 5 million jobs have returned in leisure and hospitality. There are still 3 million less jobs than pre-pandemic levels, but employers are clamoring for them to return as restaurants and travel start the next phase of re-opening.[1]

2. **JOBS ARE RECOVERING AT THE FASTEST PACE ON RECORD**
After peaking in April of last year at 14.2%, the unemployment rate has rapidly fallen to 6.0% in March. By improving more than 8% in just an eleven-month span, this is the fastest rate of recovery in history. In comparison, it took almost five years to cover similar ground following the recession of 2008.[1]

3. **THERE IS CAPACITY FOR GROWTH AHEAD**
Green shoots of job growth are showing up on multiple fronts. Total job openings have almost returned to pre-pandemic highs. S&P 500 companies are posting new jobs at a rate 42% higher than a year ago.[2] Furthermore, in the latest Small Business Optimism Index, over 40% of employers reported struggling to fill job openings.[3] Additionally, with savings rates at multi-decade highs, there appears to be plenty of demand to warrant strong growth through 2021.

Unemployment Rate

6.0%

Jobs Added in 2021

+1.6 million

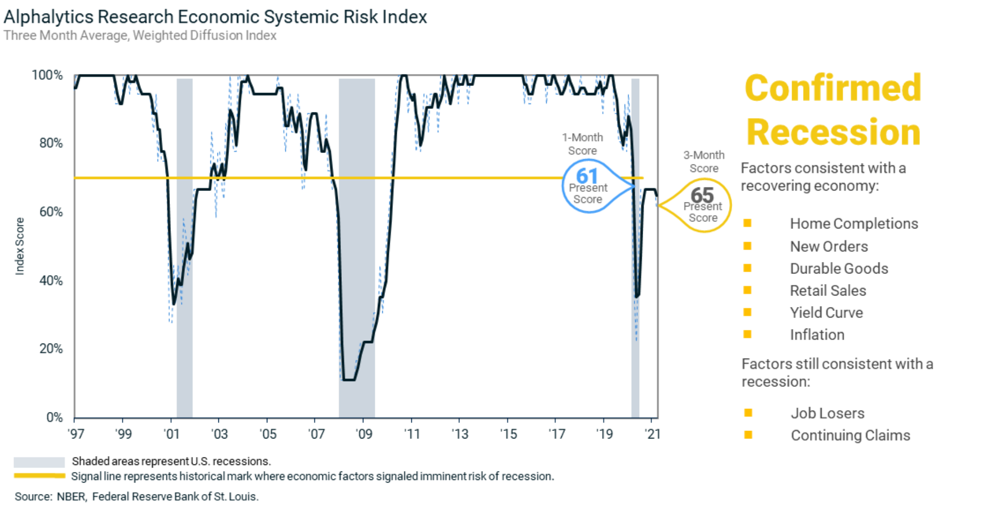
Source:
1 U.S. BLS
2 S&P Dow Jones Indices
3 NFIB Small Business Economic Trends

"Based upon the persistent improvement in incomes, employment, production and sales since May, the recession end date will likely be dated in the summer of 2020.

Business Cycle Risk Profile

- Based upon the persistent improvement in incomes, employment, production and sales since May, the recession end date will likely be dated in the summer of 2020.[2]
- U.S. manufacturing and retail sales are both hitting historical highs and are expected to push even higher as the effects of the third stimulus start to filter into the data.[2]
- The index score currently reflects seven of its nine factors scoring consistent with historical growth. The two remaining indicators are related to employment and tend to lag a recovery.[2]
- For all of 2020. GDP contracted by -2.39%. This is less than the contraction from the 2008 recession.[2]
- GDP expectations for 2021 are ranging between +5% to +7% growth.[3]
- With 1.6 million jobs added in the first quarter alone, jobs growth has already exceeded high expectations. As the economy continues to open, further jobs growth will continue to fuel an already running recovery.[1]

Source:
1 U.S. BLS
2 NBER Federal Reserve Bank St. Louis
3 Atlanta Federal Reserve, New York Federal Reserve



Interpreting the Index Score:

- The index score measures nine economic factors that have demonstrated co-movement with the deteriorating conditions of the past seven recessions dating back to 1970.
- When the index score is at 100, it means all nine of the factors are measuring at levels consistent with past economic expansion.
- When the index score is below 100, it means that one or more of the weighted factors has moved to a level consistent with past economic contractions.
- In aggregate a score of 70 or higher is interpreted as a composite profile consistent with past economic expansion. A score lower than 70 is interpreted as a composite profile consistent with past economic contraction.
- Markets can, and sometimes do, demonstrate volatility even though the economic factors are measuring consistent with expansion.

Interested in Adaptive Business Cycle Investing?

Today's markets, economies, and policies are more complex than ever, challenging investors on what to watch and when to take action.

At Harman Wealth Management, we understand sound investments are uniquely supported by the conditions that favor them. And, when conditions change, so do the investments that benefit.

That's why we conduct rigorous and disciplined tracking of the U.S. business cycle. We also track the cyclical factors that shape our investing environment, like currencies, commodities, and rates. We embrace a world where investing dynamics are constantly evolving and believe it's imperative to have an investment strategy that adapts with it.

With Adaptive Business Cycle Investing we invest consistent with business cycle forces, aligning investments with the conditions driving returns in the present, rather than chasing what worked in the past.

About Harman Wealth Management

At Harman Wealth Management, we provide private, advanced, independent planning and investment management to individuals, families, and institutional clients.

We value in-depth economic research, evidence-based investment methods, and rigorous risk management. We are committed to integrative advanced planning by aligning investment objectives with business cycle opportunities and risks.

At Harman Wealth Management, our aim is to help clients realize their goals within a disciplined, insightful, and rewarding relationship.

For more information about Harman Wealth Management or investing with the business cycle, contact us at 281-719-8601.

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