

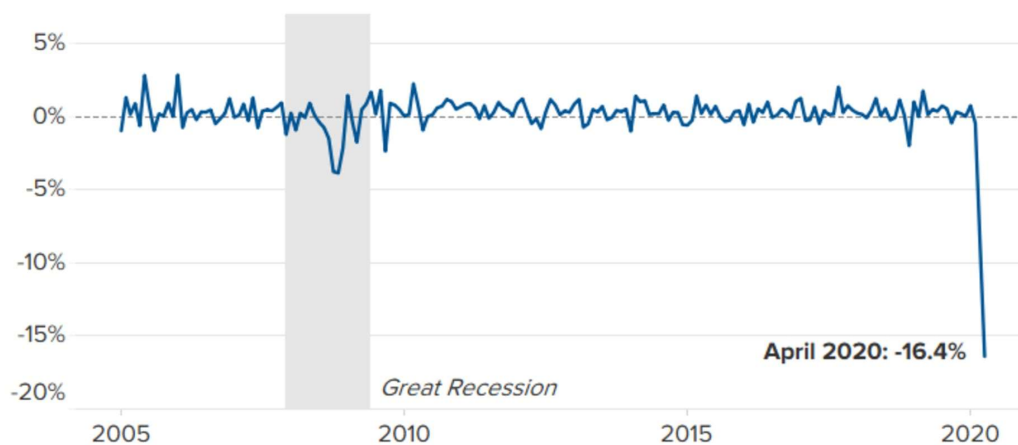


We are now about halfway through the 2nd quarter of the year and, as expected, just starting to receive the economic data that will ultimately reveal the domestic and global economic toll of the pandemic and ensuing “Great Lockdown”. First quarter economic data and March data included time before the pandemic and the lockdowns hit the US (and many other countries) and thus did not provide a true picture of the magnitude of the economic damage. April data, on the other hand, offers a more accurate picture of how our economy and the global economy are suffering.

This week, for example, we learned that April retail sales in the US fell by an unprecedented 16.4%. The retail sales chart below illustrates the severity of this pullback – it is more than 3-times what we experienced during the Great Recession.

Record drop in retail sales

Advance retail and food service sales, percent change from prior month



SOURCE: U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis. Data is seasonally adjusted.

<https://www.cnbc.com/2020/05/15/stock-market-live-updates-dow-futures-down-200-retail-sales-ahead-china-tensions.html>

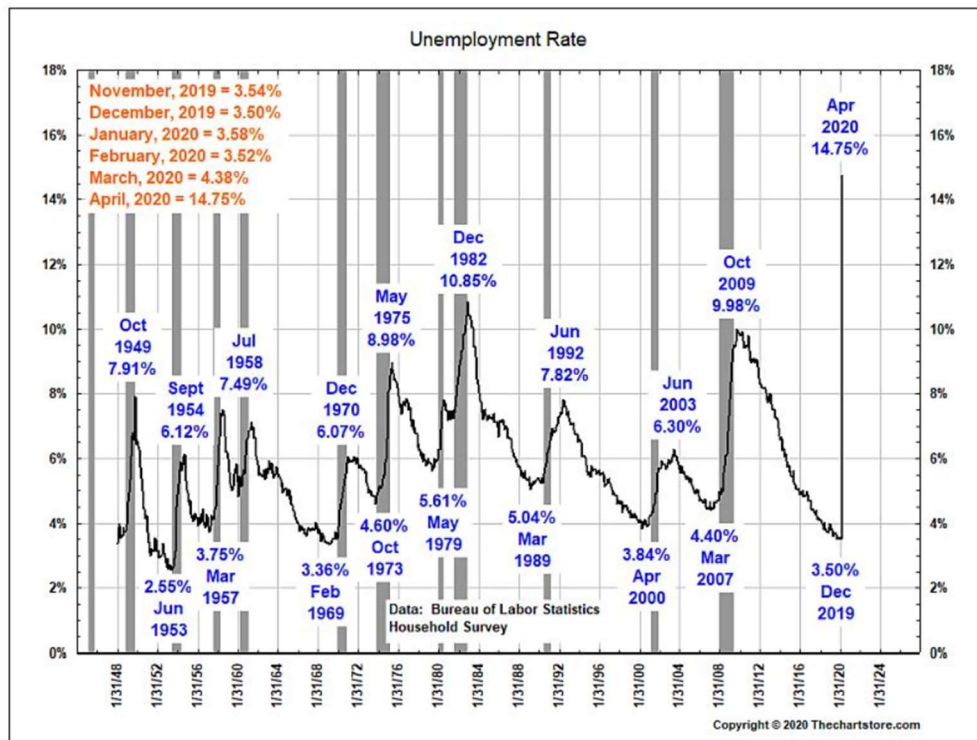
As expected, the only retail sales category to see positive growth in April was the nonstore retailers while the clothing and accessories retailers suffered the most as their sales fell 78.8%. It will be interesting to see whether there is a meaningful rebound in the retail sales data for May now that some states are beginning to relax their lockdowns and allow some stores, restaurants, and other retail venues to open in a limited capacity.

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Retail sales/consumer spending accounts for almost 70% of the US economy and a prolonged contraction in this data would be extremely worrisome. Some major US retailers, including Neiman Marcus and J Crew, recently filed for bankruptcy protection and it is likely others will soon follow suit (we believe likely bankruptcy candidates include J C Penney, Ascena Retail Group – Ann Taylor, Loft, Justice, Lane Bryant – David’s Bridal, and Forever 21. But, many of these troubled retailers were already facing significant financial woes long before the pandemic arrived. The reality is that the US was already “over-stored” heading into the pandemic and this event will likely result in numerous store closures that should eventually bring supply and demand into better alignment.

We also learned this week that US industrial production dropped by a stunning 11.4% in April. This is the worst 1-month drop in history – worse than during the Great Depression <https://www.wsj.com/articles/industrial-production-in-u-s-fell-11-2-in-april-11589550482?tesla=y&mod=article> inline. Unfortunately, this drop in industrial production is not surprising given that many factories around the country are closed or on significantly reduced hours. Also, in April alone the manufacturing sector lost 1.3 million jobs.

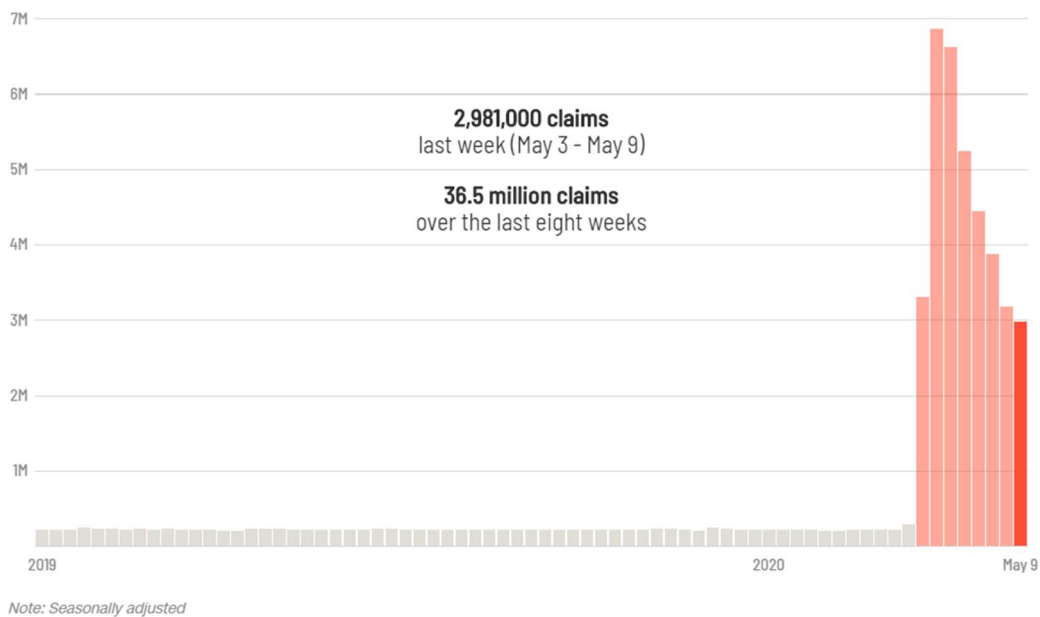
The US unemployment front looks equally dire. As you can see in the chart below, April’s unemployment



rate soared to 14.75% as more than 36 million people filed new unemployment claims over the last 8 weeks. This week almost 3 million new claims were filed. However, and as you can see in the chart below, while the number of new unemployment claims is record breaking, the pace is slowing each week.

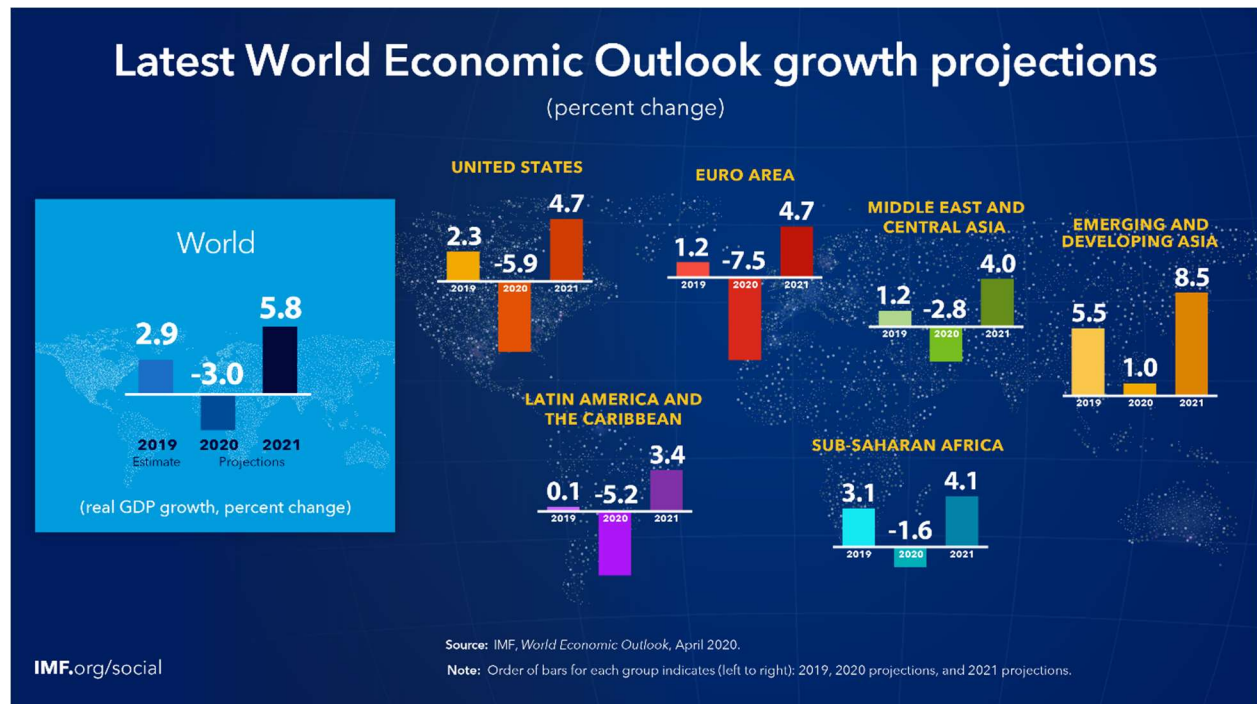
Unemployment claims surged due to coronavirus

Almost 3 million Americans filed initial claims for unemployment benefits in the week ending May 9.



<https://www.cnn.com/2020/05/14/economy/unemployment-benefits-coronavirus/index.html>

Many countries around the world are also experiencing similar drops in economic activity. The International Monetary Fund (IMF) recently released its 2020 and 2021 economic growth (GDP) predictions for the world, the US, and a number of regions which you can see in the chart below.



<https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

Not surprisingly, 2020 looks bleak. But, 2021 is expected to be a major improvement over 2020 as countries emerge from the Great Lockdown and economic activity rebounds. While we do not have any playbook to rely on that tells us how a global societal lockdown works and how to successfully emerge from one, we can look at some of the countries that are ahead of us in the disease progression to see what they are doing, whether it works or not, and how their economies are recovering. For example, April's economic data for China revealed some improvement as industrial production moved into positive territory again (+3.9%) and retail sales fell by just 7% -- better than March's 16% decline <https://www.wsj.com/articles/chinese-economys-recovery-from-coronavirus-starts-off-slowly-11589527393> .

It is also important to keep in mind that the world's economies are intertwined with each other. Thus, an earlier economic recovery in China and other Asian nations could benefit the US, German, UK, and other world economies that are further behind on the economic recovery and disease curve. Of course, the increasingly global economy also has its downsides. The US, for example, is threatening reprisal against China for its role in the pandemic while China is threatening economic retaliation against the US for blaming the pandemic on China. For the moment, this rhetoric sounds eerily familiar to what we heard during the US-China trade war and it remains to be seen where it leads and how much of this is simply bluster.

As we look ahead to the second half of this year, we expect the US economy will begin improving as the pandemic eases and as the states further reopen. But, we also expect that coronavirus cases may rise temporarily as the states begin to reopen and as testing becomes more widely available around the country. We could even see some states reopen, briefly close, and then reopen again. This is an extremely fluid situation and, in some respects, we are making it up as we go. Unfortunately, it appears that we may not truly resume our "normal" way of life until a vaccine or effective treatment is discovered. The amount of money dedicated to these discoveries and the number of scientists and pharmaceutical companies working on this around the world is encouraging! Human vaccine trials are already underway for several potential vaccines developed by Pfizer, the University of Oxford, Inovio, Moderna, and Novavax/the University of Pittsburgh. Other vaccine candidates developed by Johnson & Johnson, Glaxo, and Sanofi are due to begin human trials shortly.

<https://www.npr.org/sections/coronavirus-live-updates/2020/05/05/850547834/pfizer-begins-coronavirus-vaccine-trial-in-u-s>.

We know this is a difficult time for everyone. The uncertainties in the financial markets and the economy add additional stress onto what is already an incredibly stressful situation. If you have any questions regarding your current financial situation, please do not hesitate to reach out to us. Health and well-being are very important during these difficult times. The Los Angeles County of Public Health developed a great reference guide to help you maintain your mental health and well-being during the pandemic. You can find it [here](#) . Resources are also available in your own community. In Montgomery County, PA, where we are located, this [website](#) offers a wealth of resources and online programming.