Triple word score

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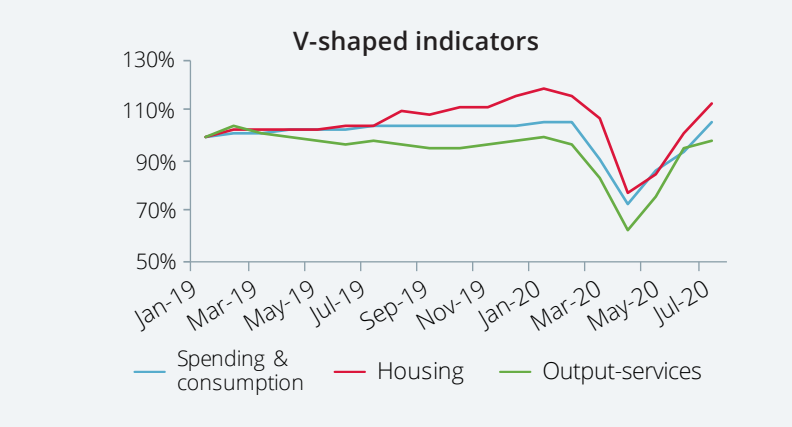
The new favorite pastime of economists and pundits seems to be "Recovery Scrabble," where everyone rushes to assign their own letter score to the post-COVID-19 recovery: Will it be "V-shaped," with last quarter's sudden and severe drop in economic activity followed by an equally sudden and robust resurgence? Or is it more likely to resemble a "U," with activity dragging along the bottom longer and recovering more slowly? Others have offered "W" and "L" (as well as a few other, more exotic shapes) to describe the post-pandemic economy.

But this risks massive oversimplification. In reality, economies are vastly complex systems of interlinked sub-systems, each subject to constant evolution and change. The interrelationships among these smaller systems evolve, too, making the game of economic forecasting more like trying to predict the path and intensity of a hurricane than the relatively mundane — but far more enjoyable — task of arranging tiles on a Scrabble board.

In an attempt to make some sense of all this chaos, we looked at a more than 30 common indicators and aggregated them into economically relevant categories. Then, we compared the most recent results to pre-pandemic levels to sort out those that look most "V-like" from those that look more like "U's" "W's" or "L's."

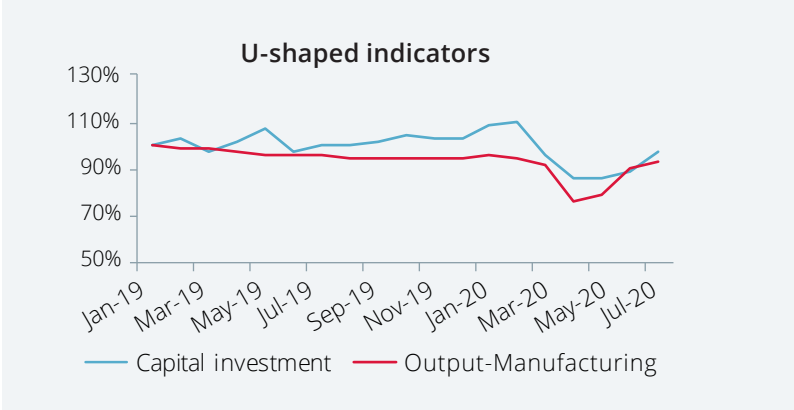
V-shaped indicators: Spending, housing and services



Supported by massive government stimulus (and the ubiquity of online shopping), U.S. consumers have been able to climb back toward pre-pandemic spending levels relatively quickly. Meanwhile, housing activity has displayed similar momentum, with an aggressive response by the Federal Reserve early in the pandemic causing mortgage rates to drop and allowing pent-up demand for housing to return quickly.

At the same time, the massive U.S. services sector — ground zero for shutdown-related declines in activity — has also been among the first areas to recover as the lockdowns that temporarily made it impossible to visit a hair salon, work out at a gym or get your oil changed have slowly begun to ease.

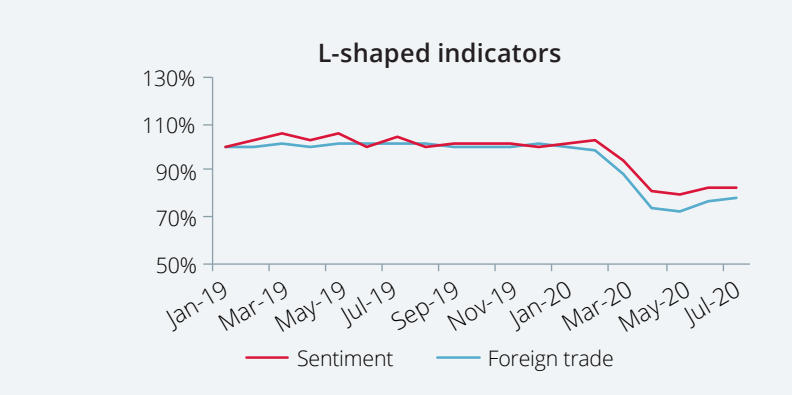
U-shaped indicators: Manufacturing and capital spending



By contrast, the manufacturing sector has been somewhat slower to recover, most likely because of the supply chain disruptions, factory lock-downs and other employment-related distortions that have accompanied a collapse in demand.

Capital investment, which is critical to future economic performance for the role it plays in productivity growth, has also lagged. But investment is inherently a long-term decision for both businesses and households, many of whom lack sufficient clarity to make large outlays given the new resurgent of the virus and a still-uncertain economic future.

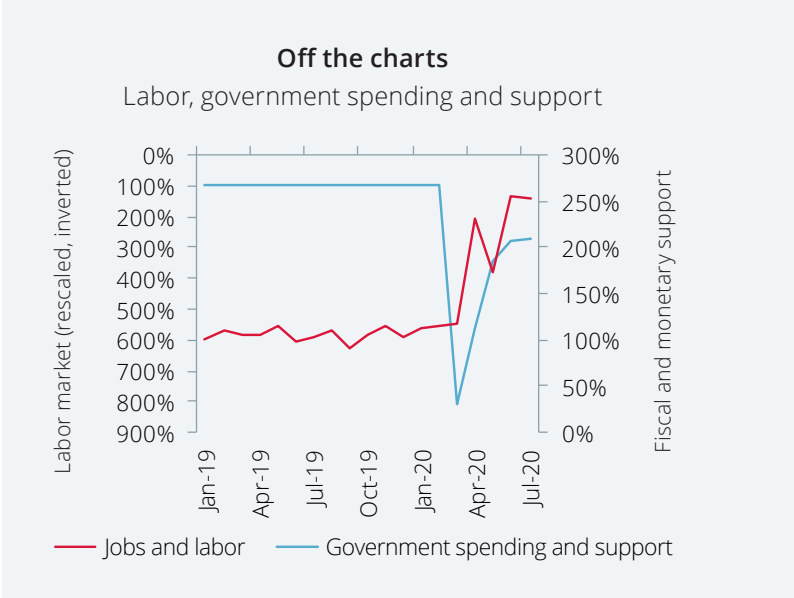
L-shaped indicators: Trade and sentiment



Meanwhile, two areas that have been even slower to recover include foreign trade and sentiment. Trade volumes have been challenged not only by a collapse in aggregate demand, but also by the global scope of the pandemic and border controls that have sometimes been associated with it. U.S.-China trade friction — which has continued quietly throughout the pandemic — is also a likely factor.

But far more troubling is the inability of consumer and business sentiment to regain momentum. After remaining surprisingly resilient during the first few weeks of the pandemic, consumer sentiment took a leg down in late spring and has remained in wait-and-see mode since then as the virus stages a comeback. Business sentiment, too, has remained cautious as executives carefully prepare for any and all contingencies — an entirely reasonable response to continued uncertainty.

Two outliers: Labor markets and government support



Finally, two areas that utterly defy efforts to describe them using a simple Scrabble tile include the U.S. labor market (which instead looks more like that dreaded symbol from your high school algebra class, the radical sign) and the "hockey stick" of fiscal- and monetary support.

With lessons from the Great Financial Crisis 2008-09 still somewhat fresh, authorities acted quickly and decisively to blunt the worst of the economic damage inflicted by COVID-19 by putting in place an unprecedented amount of fiscal and monetary support. But many CARES Act programs are now expiring and Washington remains deadlocked over their extension, which could place the budding recovery at risk.

With regard to labor market trends, the U.S. unemployment rate spiked massively as government-mandated shut-downs went into effect, but has so far happily side-stepped dire predictions suggesting it would peak above 20%. But recently, the recovery in jobs has stalled, at least partially in response to a renewed surge in COVID-19 infections. If the economy is to regain momentum anytime soon, labor markets will have to reaccelerate.

So which will it be, "W," "U" or "V"?

For its part, the U.S. stock market seems to have near-complete faith that the post-pandemic recovery will turn out to be V-shaped. For evidence, look no further than its recent tendency to rally to new highs. Meanwhile, other markets — most notably fixed income and precious metals — aren't as convinced, and instead seem to be suggesting something more like a "U" or "W" is in the making.

Either way, some of the pandemic's economic impacts have been both unexpected and unpredictable, and the extent of the damage wrought by the virus and our response to it probably won't be known for years — much like symptoms of the disease itself. That, together with uncertainty related to the still-unchecked expansion of the virus, makes a close monitoring of the economic vital signs charted in the previous pages more crucial than ever.

Source Data, by Category

CATEGORY	ECONOMIC INDICATOR(S) USED	SOURCES
Labor Markets	Total U.S. unemployment rate, initial jobless claims, hours worked, total US job openings (JOLTS)	Bureau of Labor Statistics, U.S. Department of Labor, Federal Reserve Bank of St. Louis (FRED)
Sentiment	UofM Consumer Sentiment, Conference Board Consumer Confidence, NFIB Small Business Optimism, CEO Confidence, Atlanta Fed Business Uncertainty (inverted), OECD Business Confidence (USA)	University of Michigan, Conference Board, National Federation of Independent Business, chiefexecutive.net, Federal Reserve Bank of Atlanta, OECD.org, Bloomberg, Federal Reserve Bank of St. Louis (FRED)
Consumption & Spending	Retail sales (ex-food and drinking est.), Retail sales (food & drinking est.), Personal consumption expenditures	U.S. Department of Census, Bureau of Labor Statistics, Federal Reserve Bank of St. Louis (FRED)
Housing	Existing home sales, new home sales, housing starts, housing permits, S&P Case-Shiller 20-City Housing Price Index, NAHB Traffic of Prospective Buyers	National Association of Realtors, U.S. Department of Census, S&P Global Indices, National Association of Homebuilders, Federal Reserve Bank of St. Louis (FRED)
Output - Services	ISM non-manufacturing index, Markit PMI services index	Institute for Supply Management, Markit Economics, Federal Reserve Bank of St. Louis (FRED)
Output - Manufacturing	ISM manufacturing index, Markit PMI manufacturing index, Capacity utilization, industrial production	Institute for Supply Management, Markit Economics, U.S. Federal Reserve (G17), Federal Reserve Bank of St. Louis (FRED)
Capital Investment	Atlanta Fed capital investment rate index, NFIB capital expenditure plans, 3-6 months forward	Federal Reserve Bank of Atlanta, National Federation of Independent Business, Federal Reserve Bank of St. Louis (FRED)
Trade	Total exports (goods), total exports (services), total imports (goods,) total imports (services)	U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis (FRED)
Monetary and Fiscal Support	Federal Reserve balance sheet (total assets), U.S. Treasury outlays	Federal Reserve (H.4), U.S. Department of the Treasury, Federal Reserve Bank of St. Louis (FRED)

Indicators were aggregated by equally weighting each indicator within a given category. Aggregated data was then compared to pre-pandemic levels (January, 2019 = 100) to generate trend. The list of categories, and the economic indicators chosen to represent them, are intended to representative only and should not necessarily be viewed as comprehensive.