

# December 2020



**Trends Report**

ITR Economics

## Executive Summary

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### *Why We Prefer Looking at the Economy “By the Numbers”*

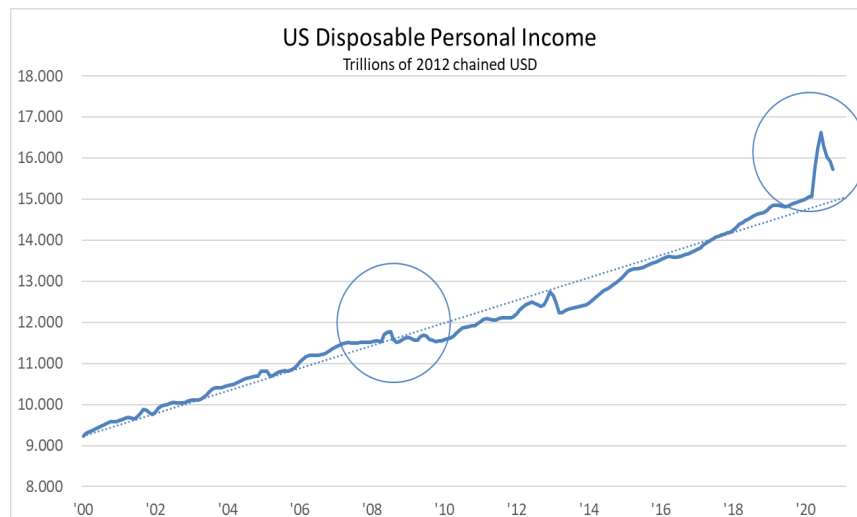
Psychologists have a term that explains why bad news seems to fill the media bandwidth and capture our attention. It is called “negativity bias” and it includes our collective hunger to hear and remember bad news. A study done at McGill University in Canada demonstrated this trait exists in people that report they prefer “good news.” The negativity bias is thought to be present because we are wired to be ever mindful of threats and have a need to react. The need to assess risks and react accordingly is certainly a trait of business leaders. However, managing for the future with this negativity bias and the always present cacophony of media inputs can result in delays, missed opportunities, loss of market share, and/or loss of profits. Taking emotion and emotional bias out of the analysis yields improved results.

The outlook for 2021 is one of rise. That is what the data is telling us.

#### DISPOSABLE PERSONAL INCOME

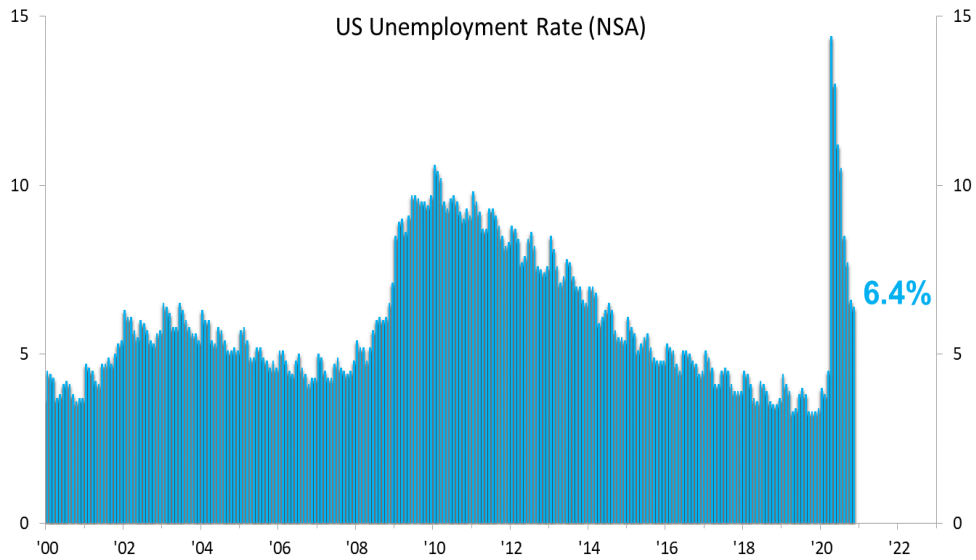
Disposable Personal Income (DPI) is the total after-tax income received by persons; it includes transfer payments. The data charted below is adjusted for inflation. It is fundamental to the economy because, after paying taxes, it is what we have left to spend, save, invest, and give away. The trend segments highlighted by the two circles show the dramatic difference between our current circumstance and the Great Recession.

The chart shows that the economy is in a totally different position now than it was at the time of the Great Recession. We don’t need to wait for DPI to begin rising again; this time it is already elevated. Notice also that the DPI trend pre-Great Recession was relatively flat. The pre-COVID trend was above the long-term trendline. This economic fundamental was in a superior trend before the pandemic struck. We are not in the post-recession period of needing to refill the coffers. This puts us in a fundamentally better position to see the overall economy improve in 2021.



#### UNEMPLOYMENT

This aspect of the economy seems to be particularly laden with emotion, with a strong negativity bias. The numbers are sobering, but unemployment has passed through the worst part of the trend, based on leading indicators, rising incomes, and the retail data presented below. The Unemployment Rate for November was 6.4%. That is down from a peak of 14.4% in April 2020. As encouraging as the latest number is, it is perhaps even more encouraging to see the slope of the trend and how it favorably compares to the last two post-recession periods. This is a strong indication that the economy is fundamentally healthier than it was coming out of those prior recessions. We think this means that concerns regarding a potential “relapse” in the consumer’s ability and desire to spend are overstated.



There frequently seems to be some confusion over the number of people unemployed. There are presently 10.264 million people who are unemployed (November monthly data, using the government’s standard U3 measure). This is down from the COVID peak of 22.505 million people. That is significant progress. The context for understanding the number is incomplete without a pre-COVID perspective. Using prior to COVID as a baseline (a time the economy was deemed to be at full employment) shows that there are effectively 4.761 million people out of work because of COVID. Many slices of the labor market are down from pre-COVID levels, but nearly all of them are already coming up from the depths of 2Q20 lows. The pain felt in the Restaurant and Retail sectors was expected; the large percentage attributable to Professional and Business Services was somewhat surprising.

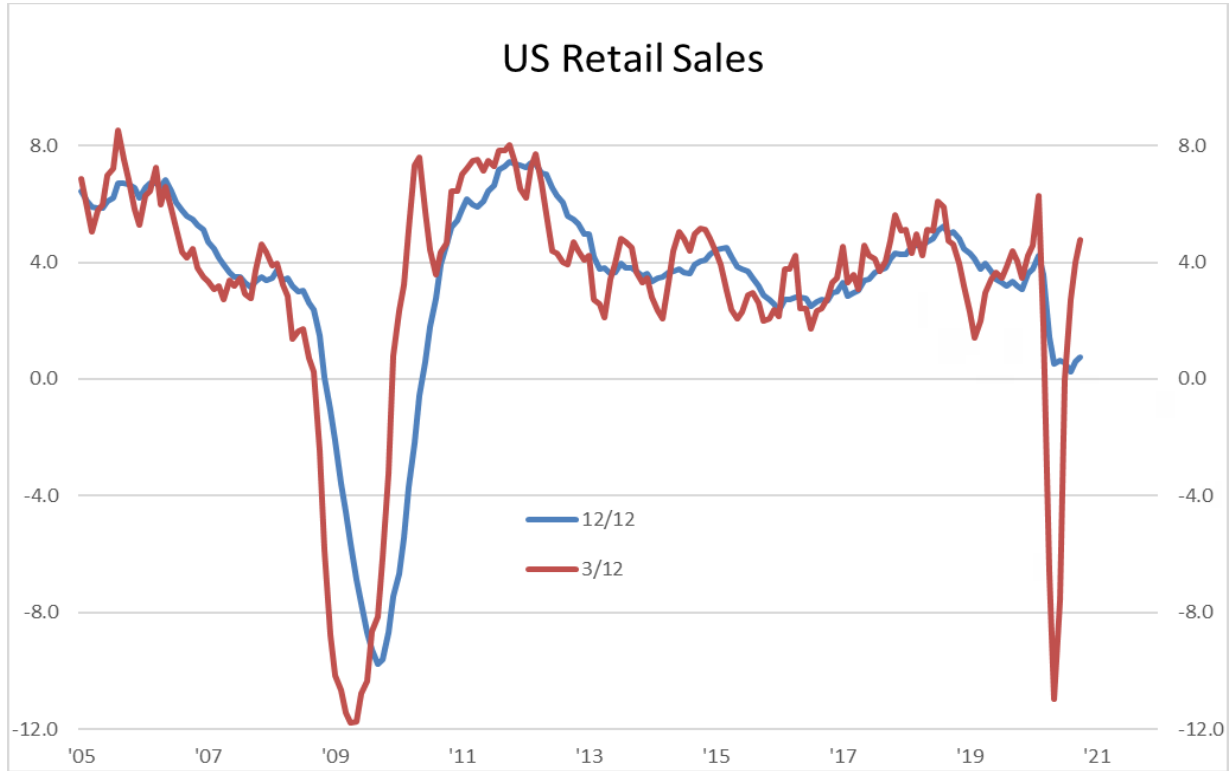
Sector	Job Gap vs. pre-COVID	
	(Thousands)	% of Total Gap
Restaurant	-1,973	41.4%
Professional & Business Services	-891	18.7%
Retail Trade	-672	14.1%
Healthcare	-472	9.9%
Education	-283	5.9%

There are also 1.077 million fewer jobs under the heading of Total Government.

The rest of the recovery in employment will take time. But the numbers show that the supply of talent in key markets is likely already tighter than you may think. Assess your people needs in light of a recovering economy and make your move accordingly.

**RETAIL SALES**

It is no surprise that Retail Sales are in a cyclical recovery/growth trend, given the positive movement in after-tax income and the declining level of unemployment. The chart below illustrates the rising trends in the 3/12 and 12/12 rates-of-change. The 3/12 ascending above the 12/12 is a positive ITR Checking Point™ signaling additional rise is probable. That outlook is confirmed by our system of leading indicators.



The Retail Sales Table below shows that different aspects of Retail Sales are in different stages of cyclical recovery. Department Stores, the weakest sector on the table, are still in 12/12 Phase D (12/12 rate-of-change is below zero and trending lower). However, note that the Department Stores 3/12 is *rising* in Phase A, and the 3/12 level is above the 12/12. The momentum of decline is dissipating. The other segments are in varying stages of rise, with 3/12 rates-of-change running above zero.

Sectors	12/12	Phase	3/12	Phase
Total Retail Sales	0.8%	B	4.8%	B
Department Stores	-14.2%	D	-11.9%	A
Automobile Dealers	-1.4%	A	5.5%	B
Furniture Stores	-4.2%	A	6.1%	B
Warehouse Clubs/Superstores	5.3%	B	5.7%	B
E-Commerce	28.0%	B	37.1%	C
Amazon Sales	27.7%	B	40.2%	B

#### SUMMARY CONCLUSION

We have an economy poised to rise. We understand that there are hurdles to overcome in the timeline concerning COVID, disseminating the vaccines, and tamping down our innate negative biases. Given the economic trends developing, if the economy were to falter at this point, it would be due to COVID and not due to a breakdown in economic fundamentals. But it won't be the economy's fault per se if rise is not part of your future for 2021. Some folks, in some markets, will need to pivot or fight for share in lagging, downward-trending markets. Challenges are ahead, but fortune favors the bold.

Economically speaking, 2021 should be a Happy New Year!

## US Computers & Electronics New Orders

Billions of Dollars, NSA

### HIGHLIGHTS

- The New Orders 12MMT was 2.2% above the year-ago level in October
- The 12MMT will generally rise through the end of 2022, with a brief plateau in mid-2021
- Integrated circuit production trends suggest New Orders cyclical rise will persist into next year

### FORECAST

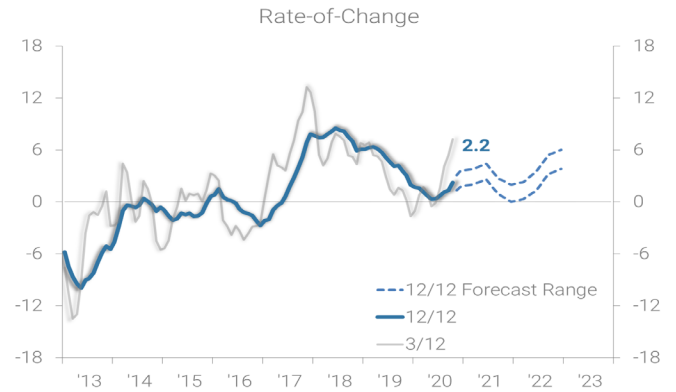
	12/12	12MMT
2020:	2.7%	\$291.9
2021:	1.0%	\$294.8
2022:	4.9%	\$309.3

### OVERVIEW

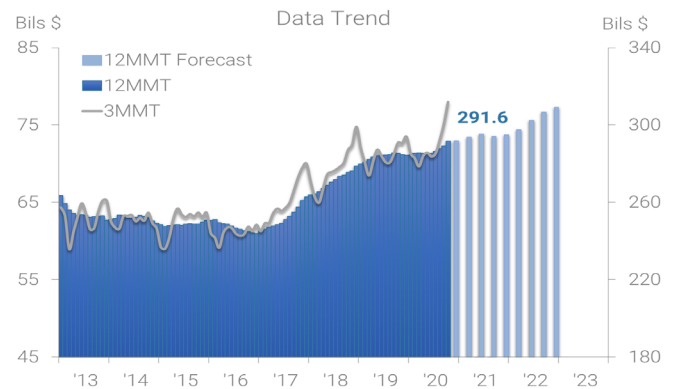
The US Computers and Electronics New Orders 12MMT came in 2.2% above the year-ago level with October data. While we expect New Orders will track the upper end of the forecast range, leading indicator evidence suggests our outlook remains the most likely outcome for the coming quarters. Expect the New Orders 12MMT to continue to rise in the near term and subsequently plateau in mid-2021. Sustainable rise will resume toward year-end 2021 and persist throughout 2022.

The China Semiconductor Integrated Circuit Production 12/12 tentatively peaked in July. China is the largest exporter of integrated circuits, which are essential for nearly all computers and electronics. Therefore, given the normal lead time, the Production 12/12 suggests a first-half-of-2021 cyclical peak for New Orders, in line with our forecast.

### RATE-OF-CHANGE



### DATA TREND



### LINKS

[Ask an Analyst](#)

[Data Methodology](#)



### ITR MANAGEMENT OBJECTIVE

Some producers of computers and smartphones are moving to in-house production for processors and other components. If such changes affect your business, look for opportunities related to this expansion of the market.