THE LONG ROAD TO HIGHER GROUND

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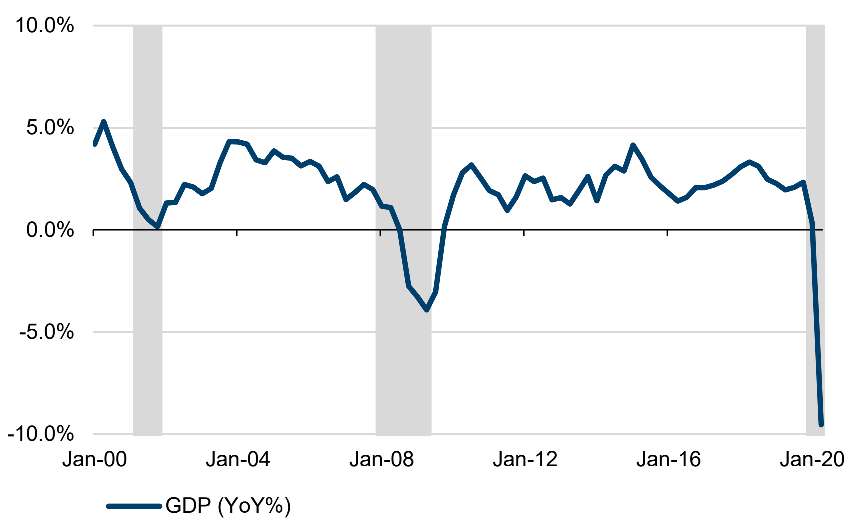
Anwiti Bahuguna, Head of Multi Asset Strategy, discusses recent economic data and her outlook

Where do we stand now in terms of the economy, recession and a return to normal economic growth?

Bahuguna: According to the National Bureau of Economic Research (NBER), the recession started as the national economy started shutting down in response to COVID-19. We are likely already out of that "official" recession. Once states started opening up, particularly in the northeast, economic activity started to rebound. We saw an improvement in economic data in June, and a little bit more in July, so it is quite likely we are already beginning to come out of the recession.

Exhibit 1: U.S. GDP (year-over-year %)



Source: Bureau of Economic Analysis; National Bureau of Economic Research; and Columbia Threadneedle Investments. As of June 30, 2020. Shaded area indicates recession.

The rebound that we have seen so far has still left us quite a ways from where we were in February when the coronavirus crisis started in the U.S. The improvement we are seeing right now is both impressive and welcome, for no other reason than it means the economy has stopped deteriorating, and in some areas showing signs of improvement. But this is not likely to bring U.S. growth back quickly to where it was in February 2020 or even the end of 2019, which was the last solid quarter of growth.

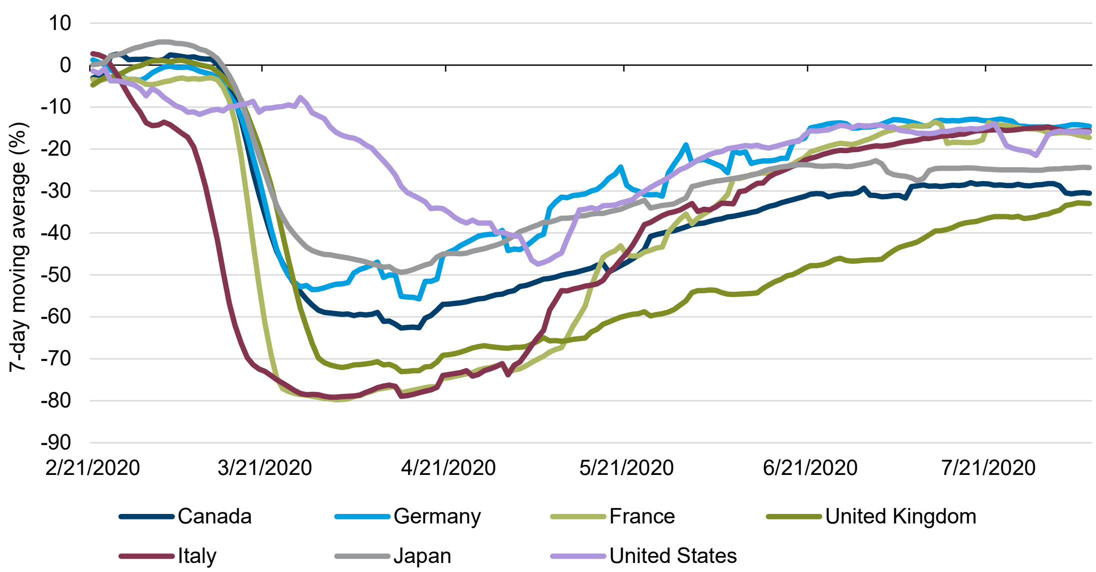
What is some of the most recent economic data looking like? Are leading indicators improving?

Bahuguna: Trying to put current data into the proper context is difficult. There is a fair amount of lag in the government data releases, making it hard to arrive at solid conclusions in real time. Our current focus is on higher-frequency data, which gives you more data points, but we are very careful how we interpret current data, as there can be significant revisions in periods of uncertainty.

We find that the most important leading indicators right now are measures of mobility—are people coming out of their houses, going to work and conducting normal daily activities? The level of mobility information right now is more correlated to what's happening to the economy than lagged economic data releases. Mobility is tied to spending; if people are moving out and about, spending is likely to follow.

Exhibit 2: Google mobility data: retail and recreation

% Change in Mobility vs. January 2020 Baseline



Source: Google; as of August 8, 2020. These reports show how visits and length of stay at different places change compared to a baseline. We calculate these changes using the same kind of aggregated and anonymized data used to show popular times for places in Google Maps. Changes for each day are compared to a baseline value for that day of the week. The baseline is the median value, for the corresponding day of the week. Retail and recreation include places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters.

Similarly, we look at weekly jobless claims data. That's a labor market indicator that is more timely than waiting for the monthly payroll release, or any of the income and spending data.

Most of the leading indicators that came out at the end of May showed a very sharp rebound off the bottom, continuing into June and July. But the most recent data in the latter half of July has started to plateau, likely due to a flareup of COVID-19 cases in parts of the country that have made people somewhat cautious again. Leading indicator data right now is not unambiguously positive, rather it's indicative of stabilization rather than continued strength.

Where have there been signs of improvement?

Bahuguna: We have seen improvement in labor data. The payroll reports for May and June were both positive, but two solid economic reports don't mean much if there is still a 10%+ unemployment rate. It is quite unlikely that we'll go back to a 3.5% unemployment rate for several years—we probably don't see that level of improvement in the labor market for two to three years, at least.

So, the bottom line is...?

Bahuguna: It is difficult for me to see a scenario where life doesn't go back to normal. But our base case is that it's going to be a recovery in fits and starts. The last few months have looked positive because some of the earliest hit areas, the Northeast U.S., Europe and Asia, have started to normalize; but we still have the virus spreading through Brazil, India and parts of the U.S.

There is a fair amount of optimism that there will be a vaccine available over the next year, paving a return to normal life. That factors into our forecast for a slow growth recovery—growth may take a back seat if people have to go back into their homes and mobility slows. But if we look beyond a one-year timeframe, I believe that there will be some medical resolution to the pandemic, and things will return to normal. That is accounted for in our forecast—we are not expecting a V-shaped recovery; rather we are expecting things to normalize over the next two to three years.

Past performance does not guarantee future results.

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