
AN OUTLOOK FOR THE SECOND HALF OF 2020

Jeremy Schwartz — Global Chief Investment Officer

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Last week's Behind the Markets podcast featured Ellen Zentner, Chief Economist at Morgan Stanley. Zentner's team just released their outlook for the second half of 2020, and we discussed what they see coming in the latter half of the year.

The Economic Revival

We talked about what will help reignite the economy, including pent-up demand finally being released. Given that demand activity was simply not allowed to take place during much of the second quarter, due to the economic shutdown, we may see a strong revival beginning in the summer months.

Zentner sees this in the retail sales reports and motor vehicle sales. She expects to continue to see more evidence of this as we continue reopening the economy. This is helping drive market sentiment, as we extrapolate these recent trends.

What Zentner is more concerned about is what happens six months from now when unemployment is still high, and we see how many more permanent jobs were lost as a result of the economic shutdown. We do not know how much of the recent job gains were driven by Paycheck Protection Program (PPP) loans, which required companies to rehire staff. Zentner does not see us out of the woods yet.

Consumer spending is driven by confidence. Morgan Stanley's team surveyed thousands of households, and one of the encouraging data points for her was that 60% of respondents did not need to see a vaccine to return to their daily activities. Few people said they would never go to a movie theater again because of the coronavirus. Zentner sees pent-up demand continuing to drive a modest recovery through July, and then expects it to take eight quarters for consumer spending to get back to pre-coronavirus levels.

By comparison, it took fourteen quarters to get to the previous peak of consumer spending after the global financial crisis, so she expects this to be a much faster recovery. Households went into this downturn with debt levels that were at 20-year lows, and mortgage delinquency rates were also at record lows. In the 10 years after the global financial crisis, the growth in debt never outpaced growth in income. It took five years to deleverage balance sheets after 2008, which restricted consumer spending.

Half of the respondents to the Morgan Stanley survey said they have some work-from-home (WFH) capability in their jobs, which was up from 15% prior to the virus, according to Bureau of Labor Statistics surveys. WFH spending more resembles retirement spending, and Zentner's team at Morgan Stanley is thinking about how that shift will affect consumer trends.

Is higher [inflation](#) coming?

In his media appearances, Professor Jeremy Siegel has been discussing the potential for 3%–5% inflation over the next few years. While Zentner is skeptical the [Federal Reserve](#) would allow inflation to run that hot, she does see structural trends beyond the coordinated policy measures that could contribute. Trends that suppressed [deflation](#) over last 30 years may no longer do so going forward. Policy makers are dissatisfied with the very low share of income that laborers get, and labor's share of profits may be rising. Likewise, a trend towards globalization looks to be reversing and that also may reverse deflationary pressures.

You can listen to our full conversation with Ellen Zentner below.

Behind the Markets on Wharton Business Radio · Behind the Markets Podcast: Ellen Zentner

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Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Deflation : The opposite of inflation, characterized by falling price levels.