John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday September 23, 2020

Unless you were paying close attention to government reports on the economy you probably missed the good news from the Census Bureau last Tuesday September 15. Most of the media ignored the report. The political bias is frightening. Voters need factual information to guide them when they vote.

The median household income for Americans grew at a 6.8% rate last year, the largest annual increase on record. In dollar terms, U.S. household income rose $4,379 last year to $68,709. This is nearly 50% more that during the eight years of Barack Obama's Presidency. Obviously, that is what so many in the media don't want you to know. Whether you like President Trump or not, his policies work, meaning benefit almost all Americans. Minorities did especially well. Median household incomes increased 7.1% for Hispanics, 7.9% for Blacks and 10.6% for Asians. That compares with a 5.7% increase for whites.

Income inequality, a big political issue, also declined in 2019. The bottom quintile's share of income grew 2.4%, with many lower earners rising into the middle class.

"These income gains weren't magical. Policy changes mattered. The Obama Administration's obsession with income redistribution and regulation retarded business investment and economic growth. This in turn led to slower income growth for most Americans.

The pandemic will eventually end, and the labor market is recovering faster than expected. The question for Americans on Nov.3 is what kind of economy they want to have on the other side. The Trump policy mix lifted wages for all and reduced inequality. The Obama-Biden mix that put income redistribution first led to slower growth and more inequality." (*Wall Street Journal* 9/17)

The pandemic has set the economy back and hurt Americans. While the unemployment rate has gone down there still are too many millions of Americans out of work. But the latest JOLTS report from the Labor Department is very encouraging. In July there were 6.6 million job openings, about the same as last December. There were 2.5 unemployed workers for every job opening, the same ratio as in January 2014. The JOLTS report also showed that the number of people quitting their jobs climbed by 344,000 in July. That meant that there were 1.2 million more quitters than layoffs in July. Why are people quitting? Because they can find a better job elsewhere. Online retailers, warehouses and home-improvement stores are on a hiring binge. Home-improvement stores have added 80,000 jobs, and general merchandise stores 199,000 since February—and many have increased pay.

Of course, the near-term outlook depends on finding an effective vaccine for the virus and then making it available to the public. That may not be easy if the vaccine includes a live virus. A live virus requires refrigeration and that means a reliable source of electricity with back-up in case of storm damage. The average physician's office most likely doesn't have that back-up. We will have to go to CVS, Walgreens, Rite Aid or a hospital to get vaccinated. Managing the millions who want the vaccine immediately will be challenging.

The University of Michigan's consumer sentiment index rose to 78.9 in early September. While still well below the reading in pre-pandemic February that is up from

74.1 in August. Richard Curtin, chief economist for the University of Michigan's surveys said: "The September gains were primarily in the outlook for the economy, and it was Democrats that posted gains in economic prospects while optimism about the economy weakened among Republicans."

The University of Michigan also surveyed voters by asking who they think will win the November election rather than who they favor or would vote for. The result is "a virtual tie."

The more upbeat attitude among Democrats must be more about how they are feeling right now, rather than what they want come November. That is confirmed by another aspect of the Michigan survey. Most consumers believe that Trump would be better for the economy, but 40% did not expect either candidate would have an impact on their personal finances.

It will be interesting to see how consumers react when we get the first reports on third quarter economic activity. That will be early next month. Estimates have been rising. It looks like the report will show growth of 20% or better. That should turn heads and bring the economy more in focus for voters.

The recovery, while uneven, is global. Global factory output has almost fully recovered from the lockdowns. China, the first to be hit by the virus, is on track to become the first to recover. Of all the large economies China is the only one expected to show growth for all of 2020. China is expected to show third quarter growth of 5% compared with last year. Note that the 20% third quarter growth estimate for the U.S. is compared with the second quarter. The Chinese recovery is encouraging because it is not being led by consumer spending. China doesn't have an unemployment safety net like the

U.S. In the depths of China's lockdowns only 3% of the 80 million unemployed received unemployment benefits. That is one reason China's personal saving rate is so high. Chinese consumers have to provide for themselves during hard times. That tends to limit consumer spending. Household consumption last year was 39% of China's GDP, well below the global average of 63%. The ability to recover so quickly from the virus is therefore credited to China's prioritizing opening factories over restarting the rest of the economy. Factories are able to enforce strict health care protocols where shopping malls and other consumer activities find that difficult because individuals move around as they see fit.

By next year China may be back on its pre-pandemic growth trajectory.

COVID-19 may turn out to be one of the rare cases when a centrally planned economy fares better than a republic or other forms of democracy. Still with the exception of Great Britain the western democracies are doing well and on track for a full recovery. Great Britain is suffering from Brexit troubles as well as the pandemic. That combination is making pandemic management more difficult.

Stocks remain volatile. In my view that is a plus because the selling and downtrends puncture bubbles before they inflate too much.

I will have the next market review and update one week from today on Wednesday September 30, 2020.

All the best,

John Dessauer