
Burgeoning 'green shoots' bring hope for an economic recovery

Weekly Market Compass: Encouraging signs were seen in job creation, manufacturing and service activity, and auto sales

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The last time I used the term “green shoots” was the late spring and summer of 2009. Like everybody else, I was looking for signs of economic life after the global financial crisis and searching for indications that the US and other developed countries were rising out of the economic ashes like a phoenix. And now, 11 years later, I find myself again looking for – and finding – encouraging signs of recovery in the US and other major developed countries. In this week’s blog, I focus on some of the green shoots that I’ve seen in the last several weeks

US: The May jobs report stuns, while automakers report a rebound

Let’s start with the most recent US jobs report. To say it provided a positive surprise is an understatement. The creation of 2.5 million nonfarm payrolls¹ in May and the drop in the unemployment rate was incredibly unexpected – even jaw-dropping.

Now, there is a footnote to this jobs report. There was a classification error that made the unemployment rate look better than it actually was. Some furloughed employees, who should be classified as unemployed, were misclassified as employed. It turns out this happened in both April and May. If the Bureau of Labor Statistics were to correct the classifications, it seems that unemployment would have been five percentage points higher in April (19.7% instead of the reported 14.7%) and three percentage points higher in May (16.3% instead of the reported 13.3%).¹ The good news is that the May jobs report was still a very significant improvement over April. Green shoots.

But it’s not just the jobs report. Take auto sales in the US – an area that many (including me) expected to be in a catatonic state for months. May US car sales showed significant improvement over April – and for many automakers was better than expected. For example, Hyundai car sales were down just 12.9% compared to May of 2019 – Hyundai described it as a “remarkable retail sales rebound.”² Toyota saw a May auto sales drop of 25.7% year-over-year, but that was a drastic improvement over April when Toyota experienced a sales drop of 55.7%.² The rebound has been powerful enough that US automakers are even planning to keep factories open and working through their normal annual summer shutdown.

Canada: Job creation bounces back in May

There were green shoots to be seen in Canada with its jobs report. In May, 290,000 jobs were created, and hours worked increased a significant 6.3%.³ While the unemployment rate rose from 13.0% to 13.7%,³ that merely indicates more people are actively seeking jobs. Quebec was responsible for a large portion of the jobs created, given its faster rollback of lockdowns

Europe: Manufacturing and services activity improve in May

And there are green shoots in Europe, which I estimate to be approximately two to three weeks ahead of the US in terms of its recovery. The final Eurozone Composite Purchasing Managers Index (PMI) for May was 31.9 – a significant improvement over the 13.6 reading for April.⁴ Both manufacturing and services have started to see improvement. Manufacturing PMI rose from 33.4 in April to 39.4 for May. Services PMI rose from 12.0 in April – a terrible reading that reflected the nature of this crisis, a shutdown largely in the service economy – to 30.5 in May.⁴

China: Economic indicators continue to rise

We of course have seen Chinese economic data rebounding in the last several months. That's no surprise given that COVID-19 appeared in China first and, with effective measures in place to control the virus, China was already rolling back its stringency measures in March (most Chinese economic data bottomed in February). The private Caixin China General Manufacturing PMI was 50.7 in May, up from 49.4 in April.⁵ Non-manufacturing PMI was 55.0 in May, up from 44.4 in April.⁵ A variety of indicators, including pollution unfortunately, are suggesting China is experiencing a substantial recovery.

Now I would be remiss if I didn't point out that one issue is manufacturing in Asia. It is showing some weakness, as Western economies that are behind Asia in terms of recovering are buying fewer manufactured goods from Asia. South Korea in particular has been hit hard by this – manufacturing PMI for May was 41.3, which is a drop from April's reading of 41.6.⁶ In China, the official government manufacturing PMI is also showing an impact: It fell to 50.6 in May from 50.8 in April.⁷ However, I expect manufacturing in Asia to improve from here – May should be the bottom – given that Western economies are on the mend.

Conclusion

My takeaway is that, despite the ferocity of the pandemic and the ensuing severe drop in economic activity, the recovery appears to be gathering steam for a number of major economies. And so far, fiscal policy has supported this. For example, the job gains in the US and Canada are likely attributable in significant part to the Paycheck Protection Program (PPP) and the Canada Emergency Response Benefit (CERB) program, respectively.

But therein lies the problem. Some policymakers will look at the results of recent progress and conclude that no more fiscal stimulus is needed. To the contrary – I believe that recent economic data proves that fiscal stimulus is needed. CERB payments currently last a maximum of four months, so those who began receiving payments in April will not receive payments after July; PPP lasts for eight weeks (in other words, PPP loans are currently fully forgiven if businesses keep employees on the payroll for just eight weeks). Further, one area of disappointment in the US jobs report was government jobs. I believe that's a sign of the stress that state and local governments are under; without fiscal support from the US federal government, we are likely to see more in the way of job losses.

The EU realizes that more fiscal stimulus is needed; hence the recent proposal for substantial fiscal support despite improved economic data. China also is planning more fiscal stimulus even though economic data is improving. In short, it's clear to me that fiscal stimulus needs to continue, or else the economic situation could quickly deteriorate. What's more, economies need to be prepared for the potential of a second wave of infections. Fiscal stimulus programs should be on standby, ready to be deployed or increased in order to combat another shutdown. Thus far, most major economies have been agile and generous in their fiscal stimulus; that needs to continue or else green shoots could quickly wilt and die.

Source

¹Source: US Bureau of Labor Statistics, June 5, 2020

²Source: CNBC.com, "U.S. auto sales rebound somewhat from dismal April as states lift coronavirus restrictions," June 2, 2020

³Source: Statistics Canada, June 5, 2020

⁴Source: IHS Markit, June 3, 2020

⁵Sources: Caixin, IHS Markit, June 1, 2020

⁶Source: IHS Markit, June 1, 2020

⁷Source: National Bureau of Statistics of China, June 1, 2020

Important information

The Eurozone Composite PMI® (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 5,000 manufacturing and services firms. National manufacturing data are included for Germany, France, Italy, Spain, the Netherlands, Austria, the Republic of Ireland and Greece. National services data are included for Germany, France, Italy, Spain and the Republic of Ireland.

The Caixin China General Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 500 private and state-owned manufacturers.

The IHS Markit South Korea Manufacturing PMI® is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers.

The Paycheck Protection Program is a US Small Business Administration loan program to help businesses keep their workforce employed during the COVID-19 crisis.

The Canada Emergency Response Benefit (CERB) gives financial support to employed and self-employed Canadians who are directly affected by COVID-19.

The opinions referenced above are those of the author as of **June 8, 2020**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.