Forward Share Tweet Share

EMPYRION™

WEALTH MANAGEMENT

October 11, 2021

Monthly Insight

The Delta Variant and the US Economy: Have We Seen the Worst?

With some experts indicating that the surge in COVID-19 cases caused by the delta variant may be cresting, many are wondering what effects the virus has had, not only on public health, but also on the US economy, which is still trying to recover from the devastation of the first wave of the pandemic that started in spring 2020. The public health effects, of course, are daunting to consider: over 700,000 have died in the US from the disease since the beginning of the pandemic, and the worldwide total is close to five million, according to the World Health Organization (WHO). By comparison, 675,000 US citizens perished in the 1918 flu epidemic.

It seems apparent that the surge in new cases caused by the delta variant dampened economic growth through the summer of 2021, just as it appeared that the initial wave of infections and deaths was easing and many were looking forward to resuming some semblance of "pre-pandemic normal." As the surge began to take hold through mid-summer, retailers, who had begun to see hopeful signs of consumers returning to stores, saw a resumption of falling numbers as many became cautious again in the face of the delta variant. Many became more anxious about dining out; trade shows were canceled; companies postponed workers' planned returns to offices; new home purchases were delayed; and other effects rippled through the economy.

Additionally, supply-chain disruptions continued to roil the economy.

Retailers have been forced to cancel sales and promotional events due to clogged shipping and delivery systems; computer chips are in notoriously short supply, hampering, among other things, auto makers' ability to produce enough new cars to meet demand; home builders are waiting weeks for deliveries of lumber, which is escalating in price; and even book and magazine publishers have been affected by the inability of printers to secure adequate paper supplies.

Finally, despite the prominence of "help wanted" and "we're hiring" signs nearly everywhere one looks, companies are still unable to hire enough workers to fully meet their needs. Some firms have begun offering unprecedented flexibility in hours and even more frequent pay increases in an effort to fill out their rosters. Rising costs of employment, of course, are contributing to the uptick in inflation that is currently on the minds of the Fed, business leaders, and investors.

On the other hand, there are signs that the economy, while not growing as fast as some would hope, has developed resilience amid the surge. Consumer spending at the nation's major retailers rose by 0.7% in August, after a decline in July (September figures will be released around October 15). With the reopening of schools and daycare centers, people are buying more groceries and back-to-school supplies, and other spending at big-box retailers is, for now at least, offsetting the decrease in auto sales, travel, entertainment, and other consumer items. Initial jobless claims, though up slightly in August, remain near a pandemic low, according to the Department of Labor (DoL), and were probably nudged upward in part by layoffs due to Hurricane Ida, which hit Louisiana in August.

One of the factors driving the economy's resilience, according to some analysts, is the historically high level of savings currently held by American consumers. A. Lee Smith, a research and policy advisor at the Federal Reserve Bank of Kansas City, has observed that the savings rate in the US increased from 7.2% in December 2019 to a record high of 33.7% in April 2020, and during the period from March to April of 2020, the savings rate nearly quadrupled. While the rate has slipped a bit from that peak, it remains at nearly double the rate prior to the pandemic, higher than at any point during any recession in recent history. Much of this historic growth in savings may be attributable to the massive liquidity infusions provided by the government during the pandemic. The stimulus checks allowed many who were unemployed to continue meeting basic needs, but they probably also allowed those who were fortunate enough to remain employed to bulk up savings and/or pay down debt in response to financial and economic uncertainties.

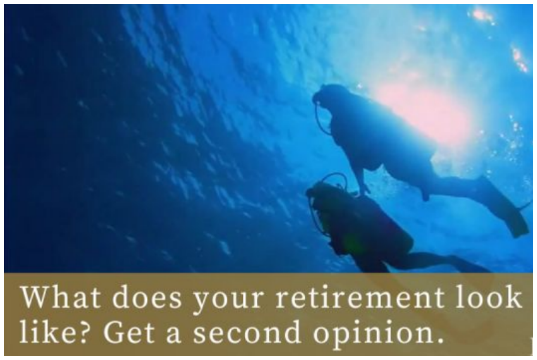
How will all this play out through the last quarter of 2021? The future is impossible to predict with absolute certainty, but if increasing vaccination rates and continued public caution around masking and social distancing are able to contribute to the easing of the delta surge, many analysts believe that consumer retail spending could continue to recover. Since this is such a large driver of the US economy—accounting for 26% of employment and nearly 20% of gross domestic product (GDP)—such a recovery would be an important ingredient for any continued economic recovery. Much will depend, however, on improvements in supply chains, since one major factor limiting consumer spending is the availability of desired products. Taking all this into consideration, some analysts believe that US GDP growth for 2021 will be somewhere in the 5.5–6.5% range. It's also important to note that this is a marked improvement from the 4.4% forecast for 2021 issued by the Conference Board at the first of the year.

In the US economy and financial markets, as in all other facets of life, the single constant is change. Because of that, Empyrion Wealth Management takes seriously the fiduciary duty to our clients to stay abreast of developments in the economy, the markets, the regulatory and taxation environments, and in all other areas that impact our clients' portfolios, financial strategies, principal priorities, and outlooks on life. If you would like to gain the clarity about your financial plan and investments that comes with a "second opinion," please click here to schedule a complimentary review.

Stay Diversified, Stay YOUR Course!

SOCIAL MEDIA DIGEST

In case you missed them, here is a roundup of my latest posts on social media:



You’ve spent decades of your professional life building a dependable nest egg to provide for your needs and long-term goals for retirement. But you need more than a nest egg; you need a plan designed specifically for you. That's where Empyrion Wealth Management comes in. You can start the next chapter of your life on strong financial footing — and Empyrion can help

To lift, or not to lift the debt ceiling is the question on Capitol Hill right now. The clock is ticking with the deadline for raising the limit probably somewhere between the middle of October and the first of November.

When your employee stock options become 'in-the-money', where the current price is greater than the strike price, you can choose from one of three basic sell strategies. Empyrion Wealth Management's calculator will help you decide which choice will likely maximize your after-tax profits.

For fixed-income investors, it is challenging to find favorable interest rates in combination with the type of security that most are looking for. Yields on US Treasuries may not seem very appealing but they are actually better than what bond investors in other countries around the world are able to achieve. Today we discuss what is happening in other countries.

KIMBERLY FOSS

President, CFP®, CPWA®, CFT-I™ Candidate

"We understand that every person we serve has distinct values and ambitions, and they each need their own plan for wealth management."