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The good, the bad and the alarming of this early economic recovery

Parts of the economy are more than 80 percent back, but others are barely 25 percent recovered.

By Heather Long
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Since President Trump declared a national emergency in March, his top advisers have repeatedly predicted a quick bounce back from the pandemic recession — a V-shaped recovery — while most economists outside the White House have cautioned it could take years to recover.

The early data is in. The picture shows an economy that's slightly improved from April but still in a deep hole. There are troubling signs that the initial rebound is stalling as the deadly coronavirus flares in parts of the country.

Nearly 15 million Americans who lost their jobs in March and April haven't been rehired, which is as many people out of work as during the worst of the Great Recession. Permanent job losses spiked in June, meaning those jobs won't be coming back. And major airlines and casinos are still announcing thousands of fresh layoffs.

The fate of the U.S. economy depends on the nation's ability to contain the virus. Consider restaurant reservations. They started to rebound in June as the health situation appeared to be improving. In Florida, reservations were down only about 16 percent the weekend of June 20-21, OpenTable data show. But as coronavirus cases surged in the Sunshine State, diners stayed home. This week, reservations are down more than 60 percent from the same time last year. Airline travel and car sales are displaying similar alarm bells.

"We are in a race against time. The longer the coronavirus debilitates the economy, the deeper the scars," economist **Bernard Baumohl** of the Economic Outlook Group warned in a note to clients. "More companies are at risk of failing, leaving yet more workers out of a job."

Still, there are parts of the economy that are finding it easier to rebound. Trump lamented Monday that the media "is not talking about what is happening with the Stock Market and JOBS." A third of the jobs lost during the pandemic are back, which is better than most forecasters expected at this point. The stock market has nearly returned to its all-time highs (and the tech-heavy Nasdaq index already hit a record).

Home sales are booming again as mortgage rates are cheap and people appear to be looking for bigger abodes after spending so much time inside. And, in a sign Americans are getting out and about again, gas usage has rebounded about 80 percent.

But there's a long way to go to anything near normal. A "reopening index" by investment firm Glenmede shows about half of the economic activity that was lost during the shutdown weeks in March and April is now back. Now there's a real danger that progress stalls or slips.

"If we don't slay this virus, the economic consequences could be way more devastating than what we've already seen," said Constance Hunter, chief economist at KPMG.

Many economists are closely watching gas consumption at the pump. Gas usage plummeted about 45 percent in April as Americans were encouraged to stay home to help contain the coronavirus. Economist Ed Yardeni of Yardeni Research calls this one of his "favorite" indicators since it's a proxy for how much people are getting out and about again. By the end of June, gas consumption had recovered roughly 80 percent of the losses as people started to fill up their tanks again.

All the driving is translating into more spending -- at some places. Retail sales in June were only about a percent off from June 2019, but there's concern that could fall off in July as the virus worsens in parts of the country and the extra $600 a week in aid for the unemployed is set to expire.

While people might be driving, they remain hesitant to fly. The Transportation Security Administration is posting daily data on the number of travelers passing through airport security checkpoints now versus a year ago. The data tanked at the end of March and fell far below normal traffic levels for much of April.

In recent days, air traffic has leveled off around a quarter of where it was a year ago, which helps explain why airlines like United and America are warning that more furloughs and layoffs are likely.

The Trump Administration has cheered the return of 7.5 million jobs in May and June as a sign the recovery is on track, even though nearly 15 million remain officially unemployed and 33 million are currently receiving unemployment aid.

"We have a V-shaped recovery. You know, assuming we get these pandemic blowups down, we're going to be in great shape. Employment, unemployment looks great," said Trump's top economic adviser Larry Kudlow Friday on Fox Business.

White House tells 18 million unemployed workers to 'Find Something New' in ad campaign

The jobs that have returned are mostly in retail, restaurants and doctors and dentists offices. These were low-hanging fruit jobs that economists widely expected to come back as reopening began. It's likely to get harder to bring jobs back from here as government aid for small businesses expires and consumers remain skittish about spending money, warn many business leaders and economists.

"We're regaining jobs that should be easy to restore. After that, it will be slow going," said Carl Tannenbaum, chief economist at Northern Trust. "There are whole industries that don't have a feel for what their business is going to look like going forward."

The U.S. economy is driven mainly by consumer spending. So far, that remains sluggish. Americans are hesitant to spend when jobs are scarce and millions of people are continuing to see pay cuts.

There's also a reluctance to venture out and spend when the virus is not under control. In an alarming sign, restaurant reservations have fallen again in California, Texas, Florida and Arizona as the coronavirus has surged in those states in recent weeks, according to booking data from the reservation platform OpenTable. It's a cautionary sign for how hesitant Americans are to return to eateries, movie theaters, hotels, religious centers and anywhere else where there are usually large numbers of people inside together.

Another telling indicator is new-car sales. As of June, only half the drop in vehicle sales had returned, according to government data.

While many industries have tried to beef up online sales and find ways to do ensure a safe experience, there's still a reluctance to return to certain types of shopping, including auto sales.

Sluggish car sales are translating directly into furloughs and salary cuts at GM and Fiat Chrysler and are likely to have ripple effects across the U.S. manufacturing sector.

One of few sectors that has seen a surprisingly rapid rebound is housing. Pending home sales have nearly bounced back to their pre-pandemic levels, according to a widely watched tracker by the National Association of Realtors.

Real estate agents credit two key factors: Record-low mortgage rates and a desire for bigger homes as many anticipate working from home for months longer. A 30-year mortgage now comes with a 3.03 percent interest rate, the lowest in history, making home-buying more affordable for those who have strong credit and enough savings for a down payment. Mortgage applications for new homes were up 54 percent in June from a year ago, according to the Mortgage Bankers Association.

The housing market is illustrating the two extremes of the pandemic recession: White-collar workers who have kept their jobs are seizing on cheap mortgages to buy bigger homes, while many lower paid workers in restaurants and retail have lost their jobs and are struggling to pay their rent and mortgages. While home sales are surging again, mortgage delinquencies have also hit a record high.

The other big rebound has been in the markets. Stock markets hit a low point on March 23, having fallen 30 percent in less than a month. Since then, markets have bounced back quickly, which Trump has frequently touted.

The S&P 500 index is nearly even for the year and has regained about 80 percent of the losses after one of the fastest rallies in market history. There are many who warn the stock market has come untethered from reality and too reliant on stimulus from the Federal Reserve, but for now, investors are betting many large companies will manage their way through the pandemic and back to sizable profits.

While stocks are soaring, so are applications for unemployment. Applications for jobless aid are still about seven times higher than before the pandemic, and people are lining up outside unemployment offices, desperate for help. Economists remain concerned that new applications for unemployment aid — even in July — remain above a million a week.

“You will have a whole host of jobs that will potentially be automated,” said William Rodgers, chief economist at the Heldrich Center for Workforce Development at Rutgers. “A lot of employers are asking: Do we cut jobs and not bring employees back? Or do we automate the position?”

Top White House officials have begun acknowledging that they need to work with Congress on extending extra unemployment aid, which is currently set to expire at the end of July.

Permanent job losses are also soaring, which is worrisome. In the early days of the national emergency, close to 80 percent of laid-off Americans thought their job losses would be temporary, a Washington Post-Ipsos poll found. But permanent job losses — where there is no hope of going back — spiked in June to 2.9 million. That’s a jump of more than 200 percent from before the pandemic.

All told, the economy appears to be about half back, but making up the rest is likely to be harder and there are already signs of stalling — or even falling back down.

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