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THE OUTLOOK

Boom Should Follow a Tough Winter

Firms face a difficult first quarter as Covid-19 cases surge, but stimulus and vaccines offer hope for a snapback later in 2021

By Harriet Torry Jan. 4, 2021

Headed into 2021, the U.S. faces a surge in coronavirus cases, new restrictions on business, cautious holiday shopping and slowing economic growth. Forecasters anticipate that the Labor Department's December jobs report, due to be released Friday, will show the labor market closed the year on a weak footing.

Economists surveyed by The Wall Street Journal expect to see employers added 68,000 new jobs in December, down from 245,000 a month earlier. That would mark the slowest month of the labor market's recovery since May.

As the Covid-19 pandemic drags into another year, however, economists see several reasons for optimism.

First, the recently enacted pandemic-relief legislative package will pump \$900 billion into the economy in coming months.

Second, with much of the services sector hobbled by the pandemic, Americans have been saving an unusually high share of their income since spring, when the pandemic first prompted widespread restrictions on business activities. The U.S. personal saving rate was 12.9% in November, down from 33.7% in April but still well above the 7.5% rate a year earlier. Many households will be able to draw on those reserves to boost spending once coronavirus-related restrictions ease and vaccinations embolden people to venture out more, according to economists.

These two factors together could fuel a resurgence in spending that will jazz the economy in the second half of 2021.

Third, borrowing costs are low, and most Federal Reserve officials expect the central bank will hold short-term rates near zero for at least three more years.

Goldman Sachs expects U.S. gross domestic product to grow 5.8% in 2021 after contracting 3.5% in 2020. Moody's Investors Service expects 4.2% growth in 2021.

One cloud on the horizon is that the latest coronavirus-relief package might be coming too late to prevent the economy from slowing further in the first quarter of 2021.

In a Journal survey of economists last month, forecasters slashed their projections for economic growth and job creation in the first quarter of 2021, but raised them for the second, third and fourth quarters.

"I look at 2021 as a critical transition year for the U.S. economy," said **Bernard Baumohl, chief global economist at Economic Outlook Group**. He welcomed the new pandemic-relief package, but cautioned that uncertainty remained around the vaccine rollout. He said he expected 2021 "to be a year of adjustment, of adaptation."

Richard Moody, chief economist at Regions Financial Corp. in Birmingham, Ala., said the recovery's shape would depend on consumers' psychology, particularly whether and when they feel comfortable going back to spending as they did before the pandemic.

Analysts caution that the economy is likely to look different as it emerges from the pandemic, with some crisis-driven shifts proving permanent. Companies are rethinking whether to bring workers back to offices and how much employees need to travel now that teleconferencing is a bigger part of daily life. American consumers have accelerated their embrace of digital shopping, telehealth appointments and online fitness classes while shunning malls, doctors' offices and gyms.

Economists say the recovery could follow a path different from recoveries in the past because the downturn has been so unusual. Previous major recessions tended to originate with high interest rates hitting the construction and manufacturing industries, which then rebounded strongly after rates eventually fell. This time, services provided in-person were among the business activities hardest hit.

High-turnover hospitality jobs are likely to come back faster than jobs lost in past recessions, said Alexander Bartik, assistant professor of economics at the University of Illinois. A quicker recovery could be in store, he said.

Still, that serves as little consolation for businesses facing a tough few months at the start of 2021. U.S. shoppers spent less than in the previous year over a five-day stretch in November including Black Friday and Cyber Monday. Retail sales dropped a seasonally adjusted 1.1% in November from the prior month.

“There’s literally no one on the streets,” said Shelley Meyer, co-founder of five specialty retail stores in Austin, Texas. “It’s desolate.”

The stores sell toys, fashion, music and candy, and largely cater to downtown office workers and visitors from out of town. Curbside pickup and online shopping are offered, “but that will never make a dent; our stores are experiential, it depends on people walking in for us to do well,” Ms. Meyer said.

“My downtown stores are doing 35% to 40% of last year’s business,” she said, adding: “We live every day wondering when the other shoe is going to drop. Are we going to be evicted? Are we going to have to declare bankruptcy?”

For many businesses, the concern about 2021 transcends the bottom line.

Aaron Rubin, co-founder of the New York-based shipping company ShipHero LLC, said growth slowed over the holiday season after a blockbuster third quarter.

“Overall our business is fine,” Mr. Rubin said. “The bigger issue is, people-wise, we’ve got a lot of people out” because of coronavirus exposure. “The human tragedy around Covid is the big thing right now,” he said.

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