

The Outlook: April 14, 2020

When bad news is also good news.

“Everyone understands getting sick,” we mentioned not long ago, “but not many really understand how the economy works.”

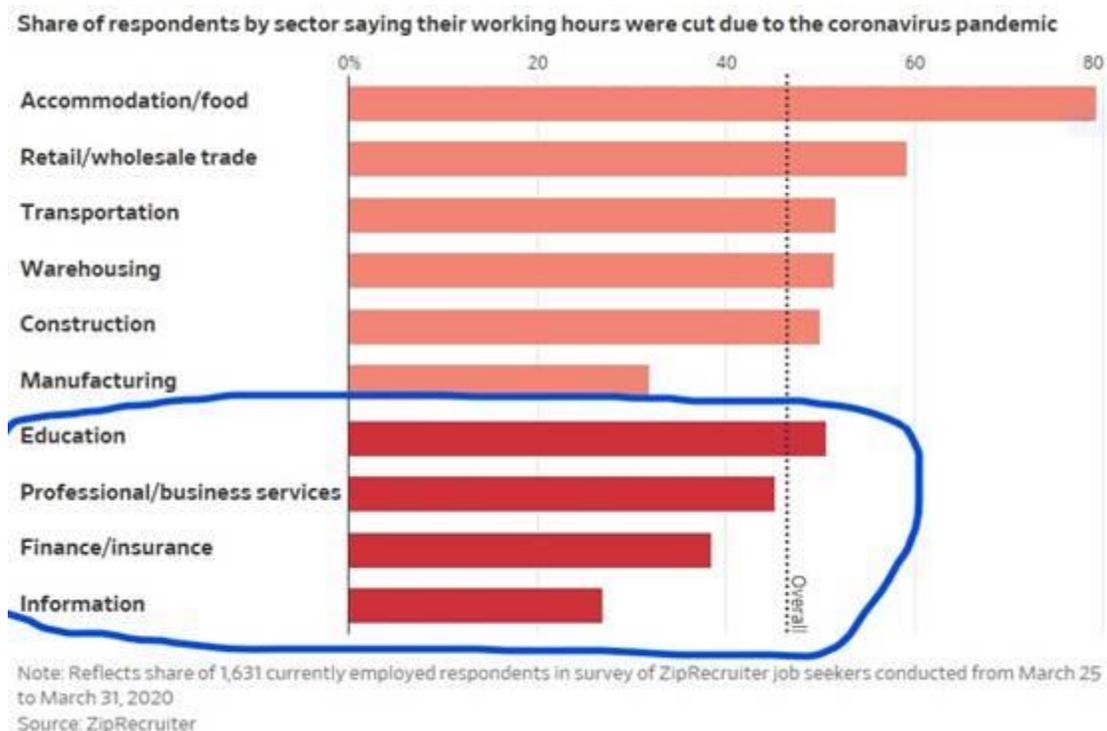
We probably added, “*especially* among the media and politicians,” since we were examining the Virus Shutdowns of the U.S. and global economies . . . and there wasn’t much media exploration, at the time, of just what kind of damage those Shutdowns would cause. There still isn’t much, today . . . but there will be more and more, as it dawns upon everyone that those damaging ripple effects are not ripples at all. They are tidal waves and avalanches of economic damage. The longer the Shutdowns go on, the more devastating the damage will be, and (finally) the more obvious it will become, even to the media.

Today’s headline in the Wall Street Journal began to make it obvious. There will be many more.

“A Second Round of Virus Layoffs Has Begun. Few Are Safe—Including White Collar Professionals.”

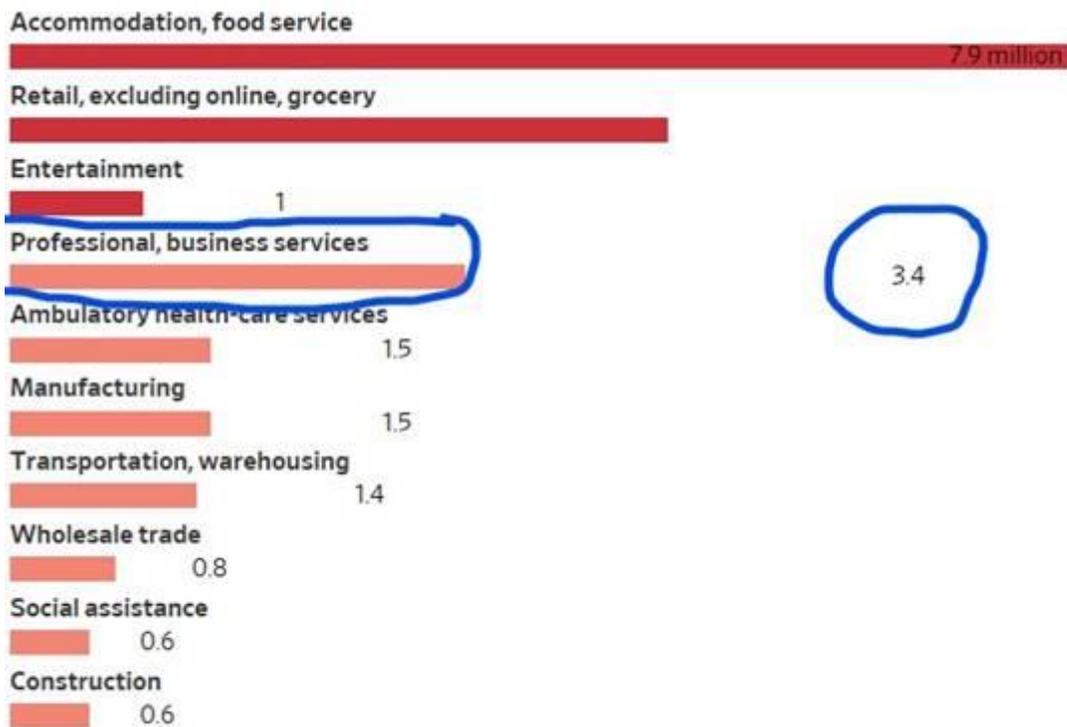
Then came a couple of graphs:

Percentages with Hours Cut, as of the End of March



This one (above) is backward-looking, but bad enough anyway. In the blue circle are those “white collar” jobs from the headline—showing 30% to 50% cuts in working hours. But that only hints at what is coming next:

Forecast April job losses, in selected industries



Source: Oxford Economics

“Forecasted Job Losses for April” is the title from Oxford Economics, the economic-consulting firm doing the counting. That “3.4” number is millions of forecasted job losses in “Professional and Business Services” . . . in April by itself.

Finally, from Oxford Economics, came a remark which surely proves our very first point, about that scarce understanding of how economies work. “The virus shock does not discriminate across sectors as we initially thought,” said an Oxford economist. Being an economist he spoke in jargon, naturally. In plain English it meant, “Ah, we thought only fast-food workers and retail store clerks would really feel the pain. It looks like we might have been wrong.”

A free-market economy is a machine which is complex beyond human comprehension, but which can be summed up this way: “Everyone depends on everyone else. Everything depends on everything else. So ripple effects move like lightning, and they touch everyone.” That is exactly why a free-market economy is such a miracle of wealth creation, of course. The vast majority of ripple effects, over the vast majority of time, are wonderful, beneficial ripple effects. They pass the benefits of endless new invention along to everyone; they spread the benefits of one person’s higher income and greater wealth along to countless other people. They do these things quickly—the more “free” the economy, the faster.

But when, for example, 50% of an entire economy is shut down by government order, the ripples are just as fast in the wrong direction. Everyone—companies and citizens—has trouble paying the bills: all the bills, from rent to electricity to insurance premiums to employee wages to, yes, the fees for lawyers, doctors, accountants and tech professionals, among a thousand others. And unlike any recession in

history, this “Shutdown” was instantaneous, pretty much, so that just about nobody got the time to adjust—people or companies.

Hence the mind-boggling nature of the Oxford Economics remark: “Um, we didn’t think it would spread like this;” and the stunning nature of remarks from quite a few eminent politicians and assorted pundits: “We might have to keep things shut down for a long time: months, maybe into next year, who knows?” No . . . like the Oxford Economics chap, they couldn’t possibly have understood how the economy actually works. And while a “\$2 Trillion Stimulus Plan” sounds like a lot, in fact it’s fairly close to nothing, compared to economic damage on this scale.

All of that’s pretty grim, isn’t it, especially coming from the eternal optimists at Outlook Capital Management. But one of the odd things about the investment world is that “bad news is often good news, underneath.” Headlines and stories like today’s “Second Round of Job Cuts!” are going to make the avalanche clear to almost everyone, as will the arrival of the daily economic statistics which will describe the avalanche in terrible detail. And that will force the world’s political leaders to face and act upon the trade-off which has been clear from the beginning of the Virus Crisis: *economic devastation versus lives*. The choices most of those leaders have made, so far, have been understandable and human—but the tradeoff changes with each passing week.

It’s very easy to be cynical about political leaders. But as Outlook remarked several weeks ago, most of them adapt their policies to facts eventually, when strong enough facts show up. That is certainly going to happen, here and around most of the world. The question is, “How soon?” Outlook’s guess is: “Probably not soon enough to be ideal . . . but soon enough for strong companies to adapt and recover, returning to the solid growth paths they’ve been building through the 11 years since the last giant Crisis.”

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