Rathbones
Look forward

Review of the week

15 February 2021

Profits are back

Company profits are bouncing back earlier than expected. How quickly will our economies come back to life once vaccinations are finished? And how different will they be?

It was all about results last week. Especially in America, companies have rebounded much quicker than most expected.

About three-quarters of the S&P 500 have reported their fourth-quarter results. About 80% of those businesses have beaten their sales estimates and a similar number have outstripped profit targets. Most reported profits roughly around 20% higher than forecast. For many, this wasn't a high bar. The average company's profits were 2.9% higher than a year earlier; the typical growth rate over the past five years was 3.8%. Still, this is the first earnings increase in a year - it's good news.

Now the question is, how much will that accelerate over the coming year? The US vaccination programme is humming along; 38.3 million people have had at least one jab, including 14.1 million who are now fully vaccinated. That's 12% and 4% of the population respectively. America is providing an average of 1.7 million doses each day and that number is steadily rising from one week to the next. It really needs to continue speeding up: at the current rate, it would take just under a year to fully inoculate everyone in the nation. While jabbing absolutely everyone is probably overkill, this calculation highlights how much work is involved in these programmes. And virtually every nation in the world is trying to do this at the same time. Expect periodic vaccine shortages, logistical problems and other curveballs along the way.

Europe has already stumbled, meaning swathes of its citizens will be unvaccinated for much longer than in other countries, pushing back the likely recovery of its economy till 2022 or maybe even 2023. I'm not trying to be a downer. This is all great progress and an amazing example of what we can achieve when we put our minds to something and work together to get it done! But it's always prudent to remember, as Robert Burns wrote, "the best-laid schemes of mice and men…". Keep an allowance for the unexpected.

Justifying want

The question on everybody's mind is, what will people do when lockdowns are eased? Virtually everyone will *want* to rush out and throw their money around like confetti, enjoying all the things that we've missed out on during a year of house arrest. Yet it takes more than desire to make a transaction.

First off, many people have had a really tough time during the pandemic. Hundreds of thousands of people have lost their job in the UK alone. Globally, the job losses run into the tens of millions. A whole host of people will be worried about how secure their livelihood is. These people may *want* to jet off to Brazil on a sun-drenched holiday, but they may not have the cash to do so. And even if they do, they may not be able to justify the expense to themselves. These decisions will be writ small as well, with similar calculations made on more mundane activities: will people be going out every day to restaurants, pubs, theatres, cafes and all those other daily extravagances? Even among the more fortunate, whose employment has been unaffected and their industry perhaps boosted by the pandemic, has a year of making the most of home comforts meant that, longer term - after the initial excitement of release - they may have picked up habits that make them less inclined to spend so much time out and about. People may have learned how to better enjoy their neighbourhood. Maybe they've found that, after all, some of the best things in life *are* free?

Secondly, a whole lot of businesses will have folded during arguably the most difficult year ever for the entertainment, travel and services sectors. Airlines have needed bailing out, pubs have shuttered, theatres have stood empty. When economies open up, it seems reasonable to expect that demand will dramatically outstrip supply. You can see the shadow of this looming over the Great British

Staycation of 2021: UK holiday hotspots are already selling out even as the government warns people not to book and get their hopes up ... It seems likely that the demand for all these social activities will drive up their cost as the service industry survivors are inundated with bookings. And that's understandable - many of these businesses will have debts and deferred taxes to pay.

But higher prices could in turn put some people off, especially after a year where many have been surprised by how much they can save by making their own sandwiches and coffee. Perhaps people will content themselves with sharing a bottle of wine with friends in a local park, rather than paying a hefty bill for the same thing in a packed bar with no seats. People may find they enjoy one more than the other. If that means more people taking the cheaper option, that will have a significant impact on what economists call the 'aggregate demand' of our nation, the total amount of economic activity we generate. And when that demand changes, it has implications for unemployment.

This is the really interesting dynamic here. How much has the pandemic changed people's behaviour? And how will we react to changes in the market for the things we used to take for granted? Only time will tell.

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