

A Shot in the Arm

Getting to the Other Side with a Post-Vaccine Economic Recovery



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The 2020s haven't got off to the roaring start we all had hoped for.* We're a year into the worst pandemic in a century, and it's brought along with it the deepest economic contraction since the Great Depression. While the rebound in economic activity following last spring's shutdown was initially sharp, it's been slowing in recent months. It seems the long, slow seep of COVID-19 has left almost no aspect of "normal life" untouched.

Not all is gloomy, however. The most encouraging development was the arrival of multiple vaccines in December. The fact that they were created in less than a year is an astounding scientific achievement, to say the least (and a reminder of the importance of the earlier, broader scientific research that made them possible). The COVID-19 vaccine rollout is underway, giving us hope that we may turn the corner soon,** with a more robust economic outlook in the second half of 2021. However, the recovery is still likely to remain uneven in the first half of the year as the services economy faces headwinds while distancing restrictions are in place.

Though challenges remain, the recovery is expected to broaden as vaccinations bring the virus under control. The post-vaccine recovery is primed to receive a shot in the arm from pent-up consumer demand,*** record fiscal and monetary stimulus, and an elevated national savings rate. However, we won't be able to get to the other side economically until the pandemic is in the rear-view mirror, or at least largely contained and its threats diminished. That other side is expected at some point this year, possibly as early as this summer—but it's unlikely the next stages of the recovery will begin with the flip of a switch, and instead will ramp up in phases.

In this commentary, we will highlight the areas of the economy poised to benefit most during the post-vaccine recovery, as well as outline the potential setbacks that lay ahead.

Big Shots

- **No small feat:** The first successful vaccine was developed by English doctor Edward Jenner to treat smallpox in 1796.¹ Some 400,000 Europeans died annually from smallpox in the 1700s.² Jenner's work eventually helped lead to the disease's eradication by 1980.
- **A rabid scientific curiosity:** French biologist Louis Pasteur developed the first rabies vaccine used in humans in 1885.³ However, Pasteur may be best known for his contributions to the germ theory of disease and inventing the pasteurization process.
- **The Exploring '20s:** Several important vaccines were developed in the 1920s, including those for tuberculosis, diphtheria, tetanus, and whooping cough.
- **A little chicken over the flu shot?** It's understandable, as American virologists Jonas Salk and Thomas Francis developed the first vaccine for the influenza A virus using fertilized chicken eggs in 1938.⁴ About half of the U.S. population receives a flu shot annually.
- **You look familiar...** Dr. Jonas Salk also developed the first successful polio vaccine in 1953. A vaccine campaign began in 1955, driving the number of annual new U.S. polio cases from 58,000 in 1952 to under 900 by 1962. Polio is now nearly eradicated globally.⁵
- **Leap year:** Several vaccines were developed for SARS-CoV-2, the virus that causes COVID-19. Using mRNA technology, these vaccines were developed within a calendar year. The mumps vaccine was previously the fastest vaccine developed.⁶ It took four years and was introduced in 1967.

* But they definitely came in with a roar.

** We're excited just to feel it's safe to open the door and walk down to the corner.

*** And pent-up consumers, for that matter.

Injecting New Life into the Labor Market

Service-related industries are expected to improve the most in the next phase of the economic recovery. There's a lot of latent consumer demand, and consumers are flush with cash to fuel spending when social distancing restrictions are relaxed. The personal savings rate is at a historically elevated level of 13.7% as of December 2020. The \$900 billion COVID-19 relief bill passed by Congress at year-end likely boosted the savings rate even further in January.

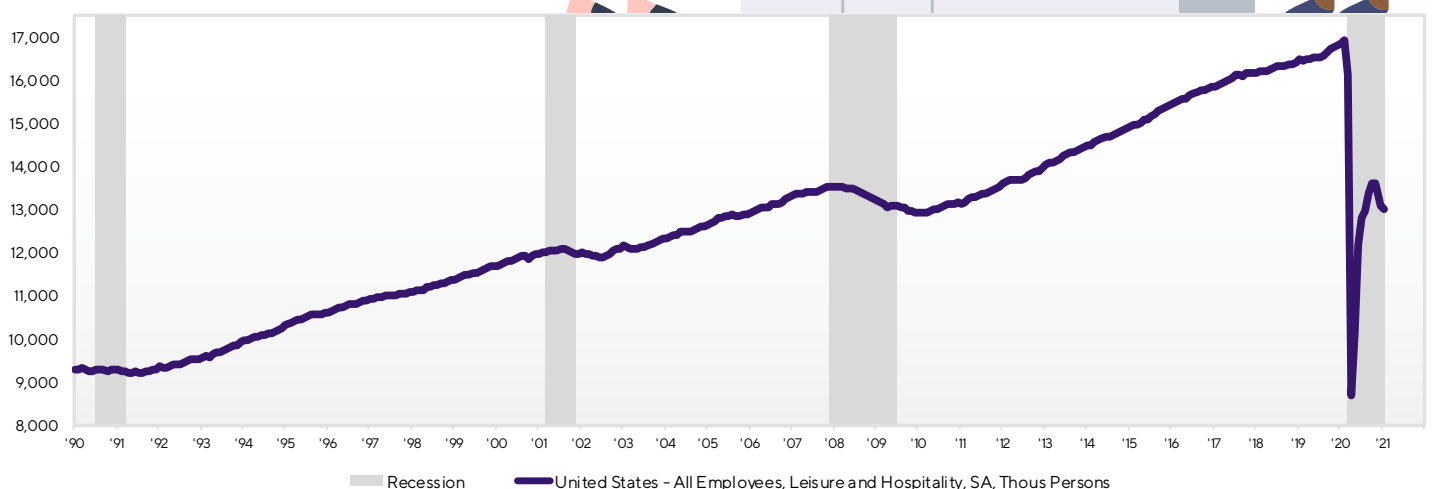
For perspective, the savings rate was roughly half the current level at the onset of the recovery from the financial crisis in 2009. What's different this time is the unprecedented policy response since the start of the pandemic. Congress passed two COVID-19 relief bills that totaled more than \$3 trillion, and a third round of stimulus could arrive in the next few months, adding up to \$1.9 trillion of additional relief. More than 70% of the U.S. labor force works in service-related industries, meaning there are millions of unemployed workers in these professions waiting to re-enter the labor force.

A rebound in the services economy will inject new life into the labor-market recovery, as the service industry has been operating well below pre-pandemic levels for the last 12 months. For example, total employment in the leisure and hospitality sectors declined nearly 50%, from 16.9 million last February to only 8.7 million just two months later when it bottomed out in April.

Since then, 4.3 million of the jobs lost have been recovered, but that accounts for only 53% of the total leisure and hospitality jobs that disappeared during the pandemic. In the entire U.S. economy, there are 9.8 million fewer people employed compared to the pre-pandemic peak. The labor-market recovery is expected to accelerate as economic activity normalizes, particularly in the hardest hit service-related sectors.

Figure 1:
Total Leisure and
Hospitality Employment

Thousands ('000)



Source: Cetera Investment Management, FactSet, U.S. Bureau of Labor Statistics. Data as of 1/31/2021.

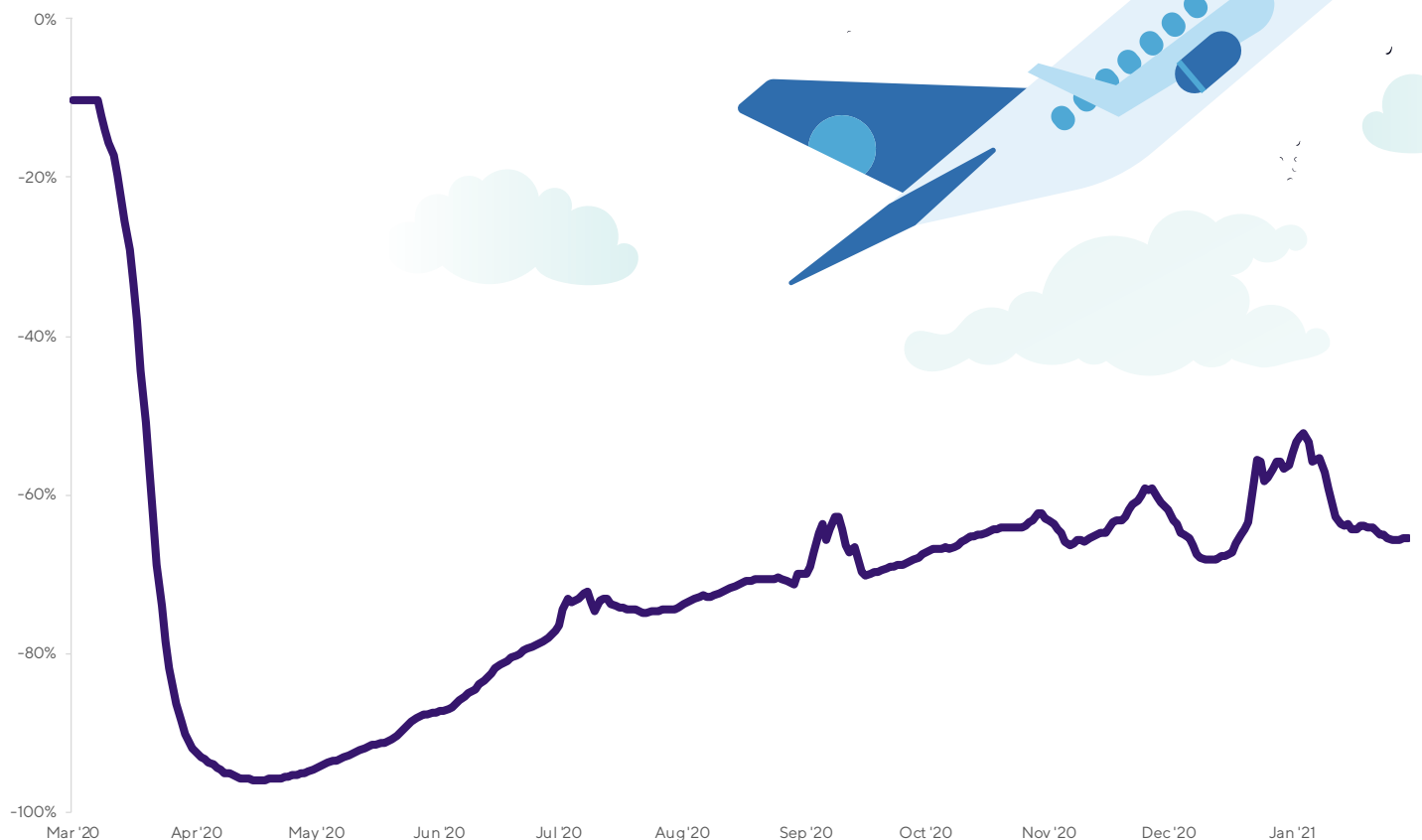
Clear the Runway for Takeoff

There's actually a good chance the runway is already clear. Few industries have been hit harder during the pandemic than the travel and hospitality sectors, with both business and leisure travel slowing substantially because of the pandemic. Demand for vacations will likely swell in the post-vaccine environment, providing a much-needed boost to businesses that cater to travelers. The total number of air travelers, as measured by the Transportation Security Administration (TSA), is still 65% below a year ago, as of January 30.

But don't expect the currently quiet airports or discounted airfares to last for long, at least in the next stage of the recovery. We are likely to see flight and hotel prices intensify, with demand accelerating after it becomes safer to travel. We all need a vacation from our living rooms.

Figure 2:
Airport Passenger Traffic vs. One Year Ago

TSA Checkpoint Passenger Traffic: YoY Change (7-Day Average)



Source: Cetera Investment Management, Transportation Security Administration (TSA). Calculated as the year-over-year change of the 7-day average. Data as of 1/30/2021.

The path forward for business travel is a little less certain. While it will eventually bounce back, pre-pandemic norms are unlikely to return in the near term. Widely adopted video conferencing software has proven itself to be an adequate and more cost-effective substitute for many types of meetings. And while video conferencing will likely be a business mainstay for the long run, there is uncertainty about when in-person conferences will return to normal.

They could return in the latter half of the year, but will most likely be smaller, with spacing and mask guidelines in effect for precaution. According to a report from the American Hotel & Lodging Association (AHLA), business travel is not expected to reach 2019 levels for at least a few more years.⁷ Still, any marginal increase in business-related travel will have a positive impact on the economy.

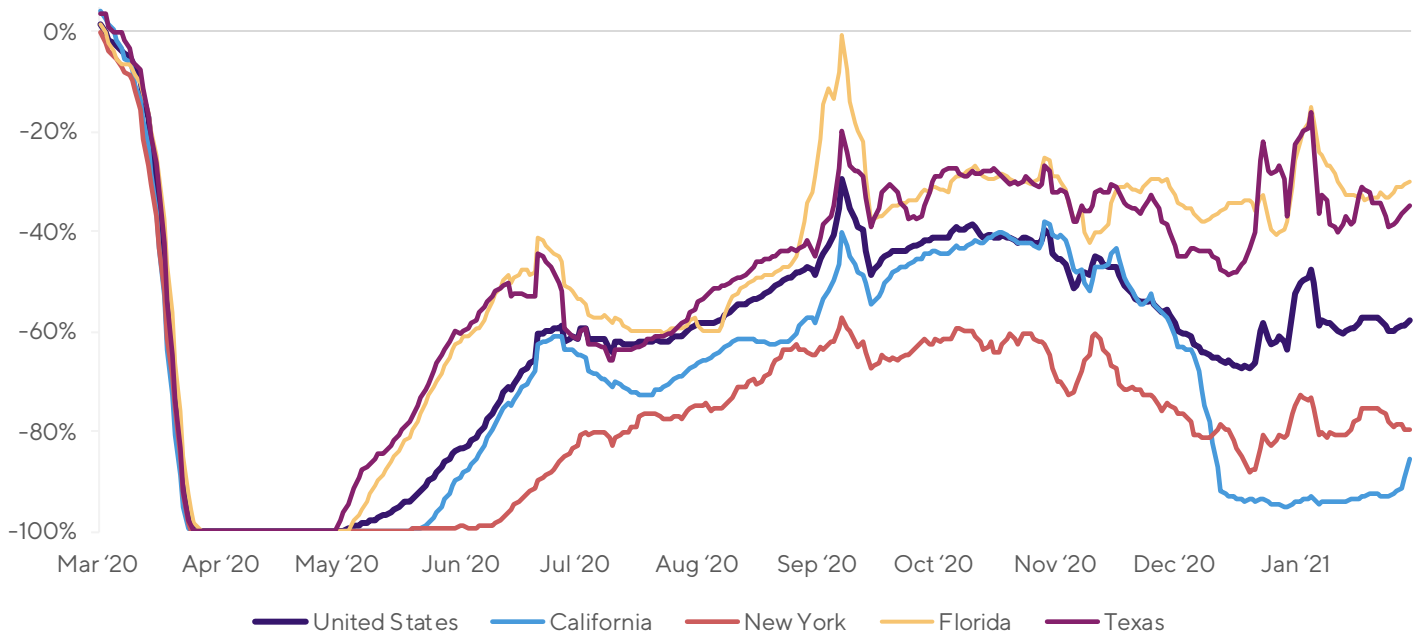
From Online to In-Person

Tech advancements have allowed consumers to shop, order food and groceries, and even socialize in a remote setting since the pandemic started. Technology indirectly helped slow the spread of COVID-19, while also providing a boost to the economy. Even in the post-pandemic world, we are likely to see consumers continue to shift toward online shopping, including food and grocery delivery, out of convenience. With that said, we are social creatures and have an innate desire to be around others.

There isn't a substitute for dining at a restaurant, socializing with coworkers during happy hour, or celebrating the holidays with a large group of family and friends. Based on OpenTable restaurant reservation data, the number of seated diners in the U.S. is 58% lower than a year ago, as of January 30. California and New York, both of which have strict distancing restrictions, are about 80% below last year's level.

Figure 3:
Seated Restaurant Diners vs. One Year Ago

OpenTable Seated Restaurant Diners: Year-Over-Year Change (7-Day Average)



Source: Cetera Investment Management, OpenTable. Calculated as the year-over-year change of the 7-day average. Data as of 1/30/2021.



As COVID-19 restrictions are eased, there is likely to be an upswing in in-person dining. This should be a boon to the damaged restaurant industry, which has lost countless businesses and jobs. Total employment in food services and drinking establishments is still 2.4 million below the pre-pandemic peak. According to the National Restaurant Association, 17% of all restaurants have either closed permanently or long term because of the pandemic.⁸

However, with loss comes opportunity. Entrepreneurs will emerge and reinvent empty storefronts and restaurants. Based on U.S. Census Bureau business formation data, applications for new businesses increased 28% last year. Coming out of the financial crisis, on the other hand, it took seven years for new business applications to rise to the 2007 pre-recession level. There is also the potential that rising demand for in-person dining with fewer restaurants open could lead to growing inflationary pressures in food services.

With few entertainment options available outside the home, people spent more time online during the pandemic. There was already a structural shift toward online media streaming heading into last year, but streaming-service subscription growth accelerated in 2020. Streaming services aren't necessarily a replacement for other types of media and entertainment. While movie-theater attendance has trended lower for nearly two decades, domestic box office attendance exceeded 1.2 billion in 2019, with three of the 10 highest-grossing films of all-time released that year. In-person entertainment will likely rebound as quickly as restrictions are lifted.

The newest action and superhero movies will attract packed audiences once again, possibly at some point this year. Stadiums, amusement parks, comedy clubs, and concert venues will also recover once we are able to move from online to in-person experiences. The speed of the recovery, of course, is dependent on how quickly COVID-19 is contained.

Downtown and the Suburbs

The COVID-19 pandemic has had a significant impact on the real estate market. Unlike prior recessions, there has been a rise in housing activity and home prices this cycle. A mini housing boom has been in place since last year's lockdown was lifted. Cities immediately became less desirable when urban amenities like restaurants, sporting venues, concert halls, and entertainment were restricted. Additionally, proximity to the office was less of a concern for employees who shifted to a remote work setting.

People fled city life for the suburbs, where there is more space for a home office and a back yard to spend time outside. What previously could have been a 45-minute commute from the suburbs to the downtown office was reduced to a seconds-long walk down the hall.

A confluence of other factors also fueled the post-pandemic housing boom, including historically low mortgage rates and millennials reaching their peak household formation years. For millennials ready to start a family, suburbs provide more space for kids and typically feature better schools.

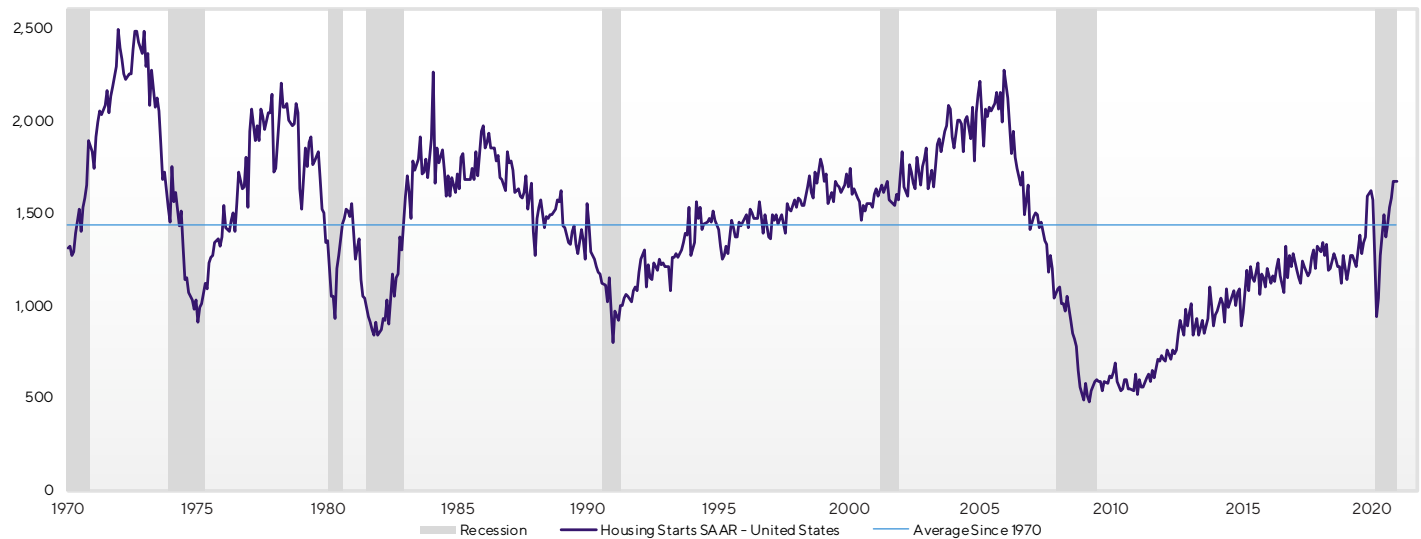
The dynamic between downtown and suburban living shifted during the pandemic, and there has been a lot of debate recently about whether this trend will remain. The resurgence of suburbs will likely endure in the immediate future, but in our view prognostications about the death of cities are premature.

As life normalizes, cultural attractions, sporting venues, and restaurants will thrive again. Tourists will flock to cities and public transit will revert to normal occupancy. Also, workers will return to downtown offices, albeit at a reduced rate compared to the pre-pandemic economy, as many employers are likely going to allow flexible work schedules going forward.



Figure 4: Housing Starts

U.S. Housing Starts
Monthly Level ('000), Seasonally Adjusted and Annualized



Source: Cetera Investment Management, FactSet, U.S. Census Bureau. Data as of 12/31/2020.

Under the more optimistic scenarios, many aspects of pre-pandemic society could return by the end of the year, bringing increased relevancy to the city core. Cities have faced dire situations in years past—including San Francisco after the 1906 earthquake, cities throughout Europe and Japan following the destruction caused by World War II, and New York City after the 9/11 terrorist attacks—and still bounced back. In our view, downtown living will become desirable again, though it might be Gen Z occupying the vacant, more appealingly priced apartments abandoned by millennials who fled for the suburbs.

Looking beyond the downtown vs. suburbs debate, the overall outlook for the housing sector remains positive. The surge in demand last year resulted in the lowest level of housing inventory in decades. Builders responded by ramping up construction.

By December, new housing starts reached a 14-year high. The U.S. economy just exited a long stretch, beginning after the financial crisis, where housing construction fell below the historical average. We might even see a material rise in housing supply later this year.

A safer post-vaccine environment and elevated home prices will likely persuade more homeowners to sell their houses. This combination of rising new home construction and more existing homes for sale would help inventory levels normalize to match the strong demand for housing.

Not Out of the Woods (Yet)

Optimism for the next stage of the economic recovery is high—largely for good reason if the virus is contained at some point this year. U.S. GDP growth is expected to climb 4.2% in 2021 per Federal Reserve projections, with much of the growth arriving in the second half of the year. Under a more optimistic scenario, GDP growth could rise above 6%, according to Capital Economics. In comparison, economic growth declined 3.5% last year, the steepest annual decline since 1946. Although optimistic growth projections in 2021 are achievable, a lot must go right, particularly for growth to exceed 6%.

For one, vaccine distribution will need to increase by a substantial amount for herd immunity to be reached by summer. Although the vaccine rollout is ramping up, inoculating a majority of the U.S. adult population in a matter of months will be one of the biggest logistical challenges in our nation's history.

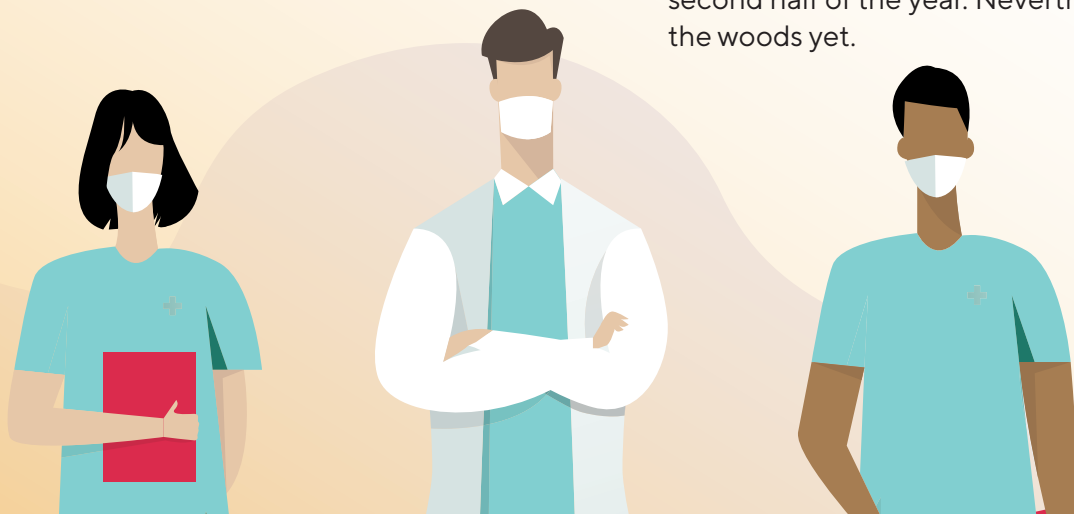
Even if we reach the scale needed, there are concerns within the medical community that too many people are reluctant to get vaccinated. It still isn't known what percentage of the population will need to get vaccinated for herd immunity to take effect, but Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, stated that it could be as high as 75% to 85%. The percentage of Americans who want to take the vaccine is currently tracking below that threshold. Attitudes will likely shift when the benefits become clearer, but the pace of inoculations could slow if vaccination hesitancy remains high.

Other countries are dealing with the same challenges. Vaccines are being administered mostly in other wealthier, developed countries during the initial phase, with supply constrained by production limitations. Until there is herd immunity on a global scale, the threat of COVID-19 will remain to some degree.

Beyond vaccine distribution, a more immediate concern is centered on new, more contagious variants of COVID-19. While it's still unknown if the new variants will impact vaccine efficacy, they could result in another wave of COVID-19 cases and hospitalizations, furthering the damage to an already fragile economic recovery.

A rising concern within the labor market is long-term unemployment. Of the 10.1 million unemployed, 40% have been unemployed for more than six months. It will be a challenge to dramatically reduce that figure if many of the businesses that previously employed those individuals are no longer in operation. Moreover, skills diminish over time, making it more difficult to re-enter the labor market after a long absence. Getting back to full employment could be challenging.

We will eventually get to the other side of the pandemic, but that process could be prolonged if there are any hiccups along the way. Unfortunately, a true recovery will not take place until it is safe to fully reopen the economy. Despite the challenges we outlined, the base case scenario remains for a strong economic recovery arriving at some point in the second half of the year. Nevertheless, we aren't out of the woods yet.





Hope Springs Eternal

Even though the recovery has been uneven up to this point, we anticipate a normalization process to occur as the virus threat dissipates. Millions of Americans will get vaccinated each week for the next several months. There might be enough inoculations by the middle of the year to reach critical mass for herd immunity to take effect. The economy won't rise to pre-pandemic levels with the flip of a switch, but we are likely to see the recovery strengthen as more vaccine doses are administered.

Bears only hibernate for the winter; by the Fourth of July, nearly 16 months will have passed since our lives were truly normal, with a lot of that time spent cooped

up indoors. The savings rate is elevated, and consumers are waiting to come out of their dormancy when it's safer to roam freely. Interest rates are expected to remain low for at least a few more years, creating a pro-growth environment.

Certain industries, like restaurants and tourism, will benefit the most from the initial surge. Nonetheless, we anticipate an uneven recovery to continue for at least the next few months before the post-vaccine recovery sets in. Our main hope is that we all get to the other side in good health. It may feel bleak during these gray winter days, but the vaccine gives us hope that we will spring forward when this health crisis is under control.

- ¹World Health Organization: Smallpox Vaccines. <https://www.who.int/news-room/feature-stories/detail/smallpox-vaccines>
- ²Riedel, S. (January 2005). Edward Jenner and the history of smallpox and vaccination. National Institute of Health. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1200696/>
- ³VBI Vaccines: Louis Pasteur and the Development of the Attenuated Vaccine. <https://www.vbivaccines.com/wire/louis-pasteur-attenuated-vaccine/>
- ⁴The Weather Channel. A Brief History of the Flu Vaccine. <https://weather.com/health/cold-flu/news/2019-12-23-a-brief-history-of-the-flu-vaccine>
- ⁵History.com: Dr. Jonas Salk announces polio vaccine. <https://www.history.com/this-day-in-history/salk-announces-polio-vaccine>
- ⁶Cohen, S. (December 2020). The fastest vaccine in history. UCLA Health. <https://connect.uclahealth.org/2020/12/10/the-fastest-vaccine-in-history/>
- ⁷American Hotel and Lodging Association (AHLA): AHLA'S State of the Hotel Industry 2021. <https://www.ahla.com/sites/default/files/2021%20State%20of%20the%20Hotel%20Industry.pdf>
- ⁸National Restaurant Association: Restaurant Industry in Free Fall; 10,000 Close in Three Months. <https://restaurant.org/news/pressroom/press-releases/restaurant-industry-in-free-fall-10000-close-in>



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