A low-angle, upward-looking photograph of several modern skyscrapers with glass facades, set against a clear blue sky. The buildings are reflected in a dark blue horizontal band that serves as a background for the text.

**CITY NATIONAL ROCHDALE**   
 AN RBC/CITY NATIONAL COMPANY

# The **BOTTOM LINE**

Relevant Insights for the Savvy Investor

MAY 2021

## THERE IS STRONG DEMAND AND WEAK SUPPLY

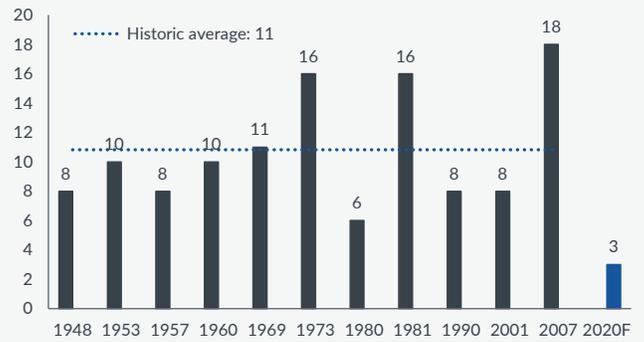
This has been an untraditional recession and recovery. It began with a rapid and short-lived contraction that lasted just three months, well below the average recession of 11 months (Chart 1). It was followed by a swift initial recovery when the economy opened up last summer, and then the growth rate stalled over the autumn and early winter months due to the rise in COVID-19 cases. Growth in Q1 bounced back with a robust 6.4% GDP growth rate due to the reduction in COVID cases and consumers being fortified with two stimulus checks (\$600 and \$1,400). Expectations have been for even faster growth in the second quarter.

But as the second quarter has opened up, two growing trends impacting the trajectory of the recovery have developed: demand is picking up, and supply is not capable of keeping up. The demand is not a surprise, as households have more than \$2 trillion in “extra” savings (Chart 2) and businesses are opening at a rapid pace. But the supply side is severely lagging with goods services, and labor.

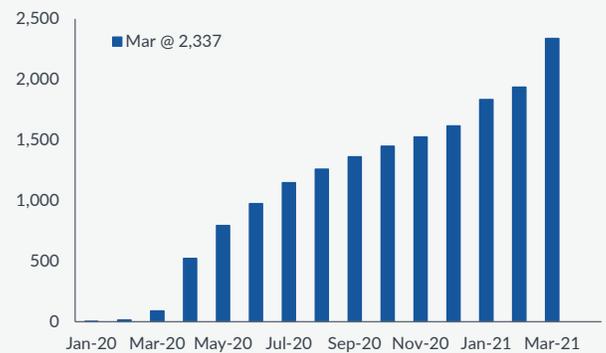
Much of the lack of supply in goods results from the overwhelmingly strong demand for goods since the pandemic started. Manufacturers have not been able to keep up with demand due to social distancing requirements, delays at ports causing a slowdown in imports and the well-publicized shortage of semiconductor chips. As for labor, although job openings are at record highs (Chart 3), job hiring is not. It is a lot easier to fire workers than hire them back. In April of last year, 22 million people lost their jobs. In the months since then, 14 million have regained employment. There is a whole host of reasons for the slow job recovery, ranging from skill mismatch to generous unemployment insurance.

This imbalance is pushing up prices in some sectors (chart 4) and concerning many consumers. But many of the price pressures are a result of transient issues, such as supply and demand imbalances and comparison to prices that were historically low last year, during the worst of the pandemic. Many of these issues will work themselves out over the coming months.

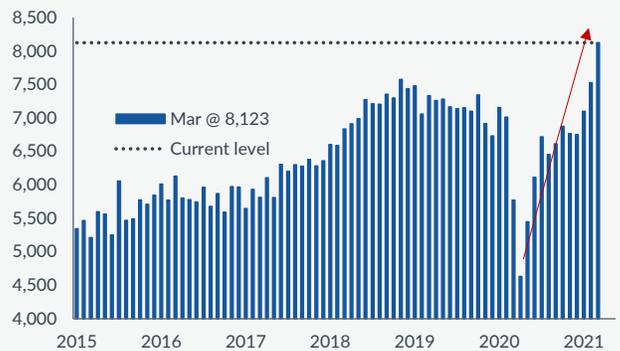
**CHART 1: Length of Recession (months)**  
for each of the post-WWII recessions



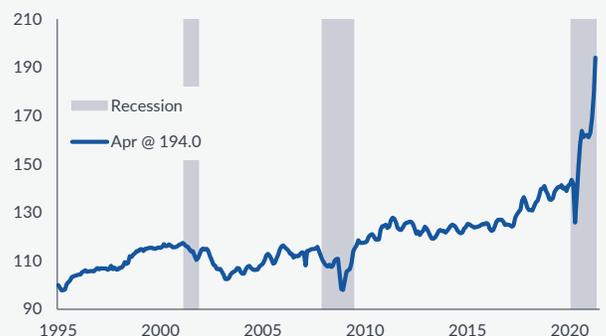
**CHART 2: Personal Savings: "Extra"**  
\$, billions, aggregate increase over 2019 average



**CHART 3: Job Openings**  
'000, seasonally adjusted



**CHART 4: Manheim U.S. Used Vehicle Value Index**  
seasonally adjusted



Sources: Bureau of Economic Analysis, City National Rochdale, Bureau of Labor Statistics, Manheim.

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# A SUSTAINABLE RECOVERY

For the economy to be sustainable, a feedback loop needs to be established. We are already seeing an increase in consumer spending, which has led to a boost in corporate profits. Next, companies need to hire more and invest in their businesses to continue to fuel the economic recovery.



## STOCK MARKET

U.S. stocks continue to trade near record highs on a robust earnings outlook, but concern over higher inflation is creating more volatility in markets.



## INFLATION

Prices are taking a jump due to increased demand and shortages. However, prices are expected to retreat toward the end of the year.



## THE FED

The Fed continues to reiterate that it will hold short-term interest rates at the near-zero level despite the recent rapid growth of the economy.



## LABOR

Payroll growth in April was not nearly as strong as expected, showing signs that it is easier to shut down an economy than it is to open it back up.



## MANUFACTURING

Production has been increasing at a rapid pace. But the pace has been hampered due to shortages of semiconductors, resins, lumber, industrial commodities and interruptions to port activity.



## HOUSING

There is strong momentum for housing. Builders are ramping up construction and dealing with the shortages of lots, labor and building materials.

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