

Quick thoughts: Focus on consumers



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The path and severity of the COVID-19 pandemic and the economic consequences are still unknowns. Fiscal stimulus has not been fully implemented, and we have not reached the peak impacts of business slowdowns.

Against this backdrop, I wanted to share some thoughts on how the work-from-home (WFH) response to the pandemic could continue to affect different groups, particularly US workers, global oil producers and small businesses.

Most people cannot WFH. According to the US Bureau of Labor Statistics, only 29% of Americans can work from home, including only one in 20 service workers.

- The US weekly jobless claims are an important economic gauge of the degree of the coronavirus shock to the economy. The large unemployment claims reported this week are historically large and likely to continue.
- As economic pain spreads from workers to property owners, mortgage lenders and other groups, we expect some negative news about just how severe the “missed payments” phenomenon is—especially when, depending on the study cited, somewhere around 75% of US employees live paycheck to paycheck.
- While the United States uses unemployment insurance to support workers, many European countries have paid companies to retain workers. As a result, US unemployment will likely rise faster than Europe, but also likely drop faster as the US economy recovers.

Oil prices to remain subdued. Saudi Arabia and Russia have agreed to a modest output cut. The big surprise might be that the United States may agree to output cuts as well.

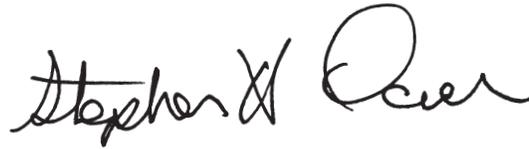
- In our view, a modest production cut deal could put a floor under oil prices, but a significant price rise seems unlikely. Demand for oil has dropped significantly and will likely stay low until the pandemic passes.
- Several major oil producers can’t balance their heavily oil-dependent government budgets with oil prices at current levels. While Saudi Arabia has the lowest cost to produce oil, it needs oil at about US\$80 per barrel (bbl) to cover its fiscal deficit. Russia needs oil at about US\$45 bbl and Iran needs oil at about US\$70 bbl to cover their fiscal deficits.

A small business hope: tech companies to the rescue? The American Small Business Association (SBA) has about a \$350 billion emergency fund to provide some relief to small

businesses hurt by the coronavirus. A possible alternative source of funding for cash-strapped tech startups could be the technology giants, which, according to our analysis, have much more cash between them than the SBA.

- Technology companies could invest in or acquire cash-strapped startups with promising technologies or enterprising talent.

For the reasons outlined above, we will continue to monitor the health of the US consumer—which represents about 70% of US gross domestic product—as the COVID-19 pandemic continues to unfold.

A handwritten signature in black ink, reading "Stephen W. Omer". The signature is written in a cursive, flowing style.

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