



April 27, 2020

The Elephant in the room: Economic Recovery



By **FRANCISCO RODRÍGUEZ-CASTRO**
frc@birlingcapital.com

Economic Recovery: Will the "U" shape recovery happen?

We hope this publication finds you well, and you and yours are healthy and safe. The main goal of producing this newsletter is to provide you with useful information that will help you better understand the shape of things to come.

Allow me to begin with a quote from George Washington-Carver, who said:

"How far you go in life depends on you being tender to the young, compassionate with the aged, sympathetic with the striving, and tolerant of the weak and the strong. Because someday in life you will have been all of these."

In these challenging times, we need the inspiration to help us navigate the storm.

The elephant in the room is what kind of economic recovery the world will have after the lockdown orders are relaxed. Our view is that the economy is expected to spring back from the sudden, severe, and damaging hard stop caused by the coronavirus pandemic. At the time of the coronavirus hard stop, the stock markets were at all-time highs, with unemployment at 3.5% its lowest in fifty years and robust job growth.

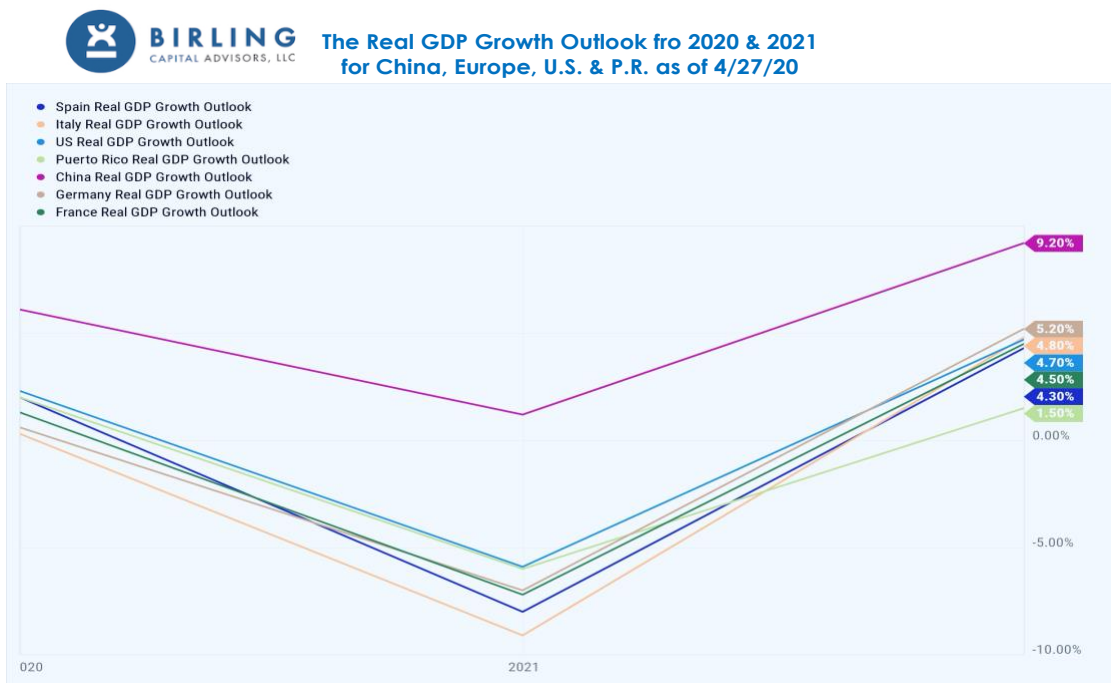
On April 20, 2020 we predicted that the economic recovery will look like "U" shape recovery. This recovery occurs gradually or in phases, and the economy does not return to normal levels quickly; instead it may take more than the rest of 2020 and does not recover fully. Our "U" shape recovery prediction is based on the Coronavirus not spreading after the lock-down and maintaining social distancing, and making obligatory the use of masks, face shields, gloves, alcohol and hand sanitizer. Furthermore, the "U" shape recovery predicts that human behavior has changed and will permanently alter how business is conducted and socialization happens. We are convinced that human behavior has changed for the next three generations. The reason is that it takes a human being, on average, 66 days for a habit to become automatic. We will reach 66 days of lock-down on May 19, 2020, and once that happens, our new reality becomes a habit.

The recovery may look like "U," the damage to the economy has been much worse than previously anticipated. Even when considering the approval of the stimulus relief laws passed that amount to \$2.680 trillion, that includes the \$660 billion of the highly popular Payment Protection Loan Program and another measure. However, most businesses, the overall economy, and markets will take longer to recover than anyone expects. Already we can see that thousands of businesses that were making ends meet may fall into bankruptcy, even companies that were doing well may be forced into bankruptcy. Many industries may be affected for years to come, for example, tourism, cruise lines, airlines, car rentals, retail, food services, restaurants, car manufacturers, concert halls, sports arenas. This list includes many other activities that we used to take for granted.

The permanent effects the Coronavirus to China, Europe, U.S., and Puerto Rico economies are difficult to determine and too early to calculate. Our new reality is wearing face masks, using latex gloves, carrying sanitizer, alcohol and practicing social distancing, avoiding large crowds is on route to becoming a long-term habit and a daily routine for all of us.

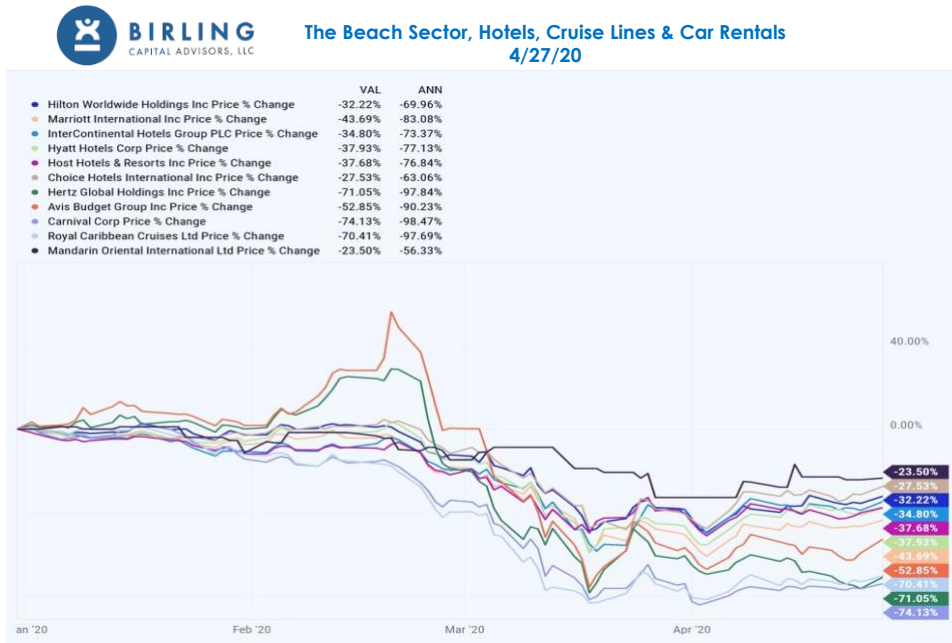
We have analyzed the International Monetary Fund World Economic Report, and their outlook is quite harmful to the remainder of 2020 with a more rosy outlook for 2021.

- **International Monetary Fund World Economic Report Real GDP Growth Outlook**
 - Spain is forecasted to contract in 2020 by -8.00% and for 2021 a growth of 4.30%
 - Italy is forecasted to contract in 2020 by -9.10% and for 2021 a growth of 4.80%
 - U.S. is forecasted to contract in 2020 by -5.90% and for 2021 a growth of 4.70%
 - Puerto Rico is forecasted to contract in 2020 by -5.90% and for 2021 a growth of 1.50%
 - China is forecasted to grow in 2020 by 1.20% and for 2021 a growth of 9.20%
 - Germany is forecasted to contract in 2020 by -7.00% and for 2021 a growth of 5.20%
 - France is forecasted to contract in 2020 by -7.20% and for 2021 a growth of 4.50%

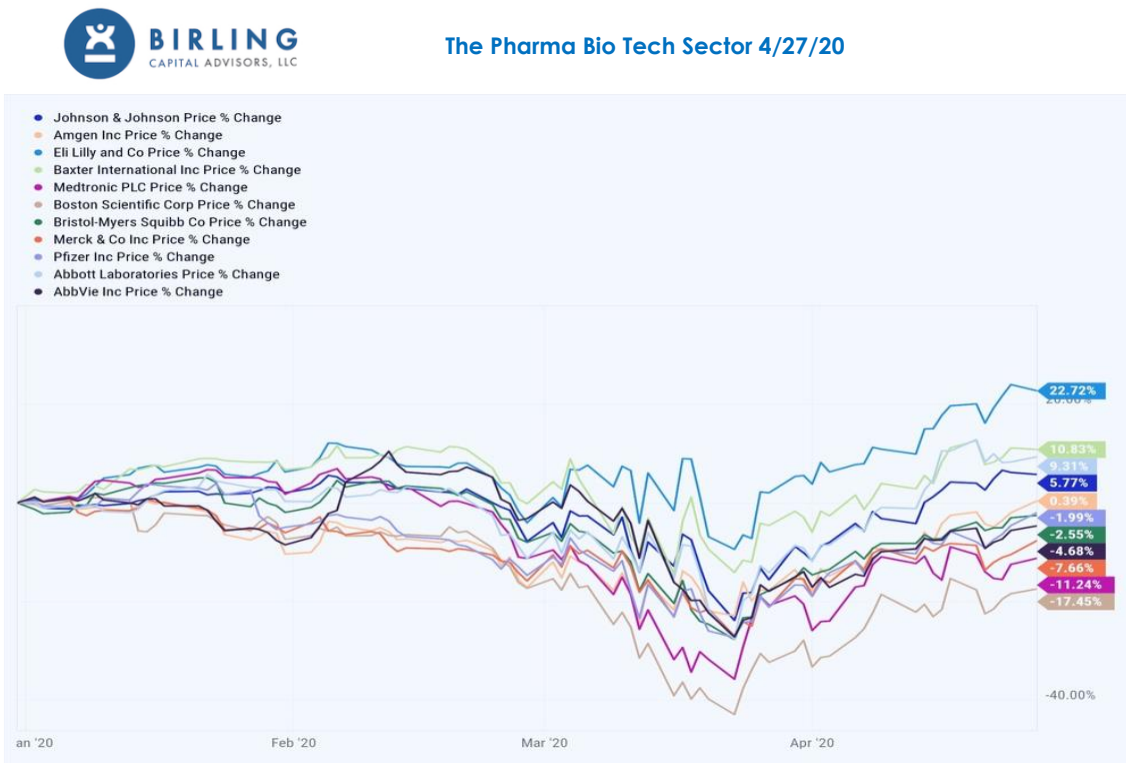


Let's review several sectors of the economy to evaluate why we mention that the economic recovery may be longer than anticipated.

- **The Beach Sector: Hotels, Cruise Lines & Car Rentals**



- **The Pharma Bio Tech Sector**



- The Energy Sector



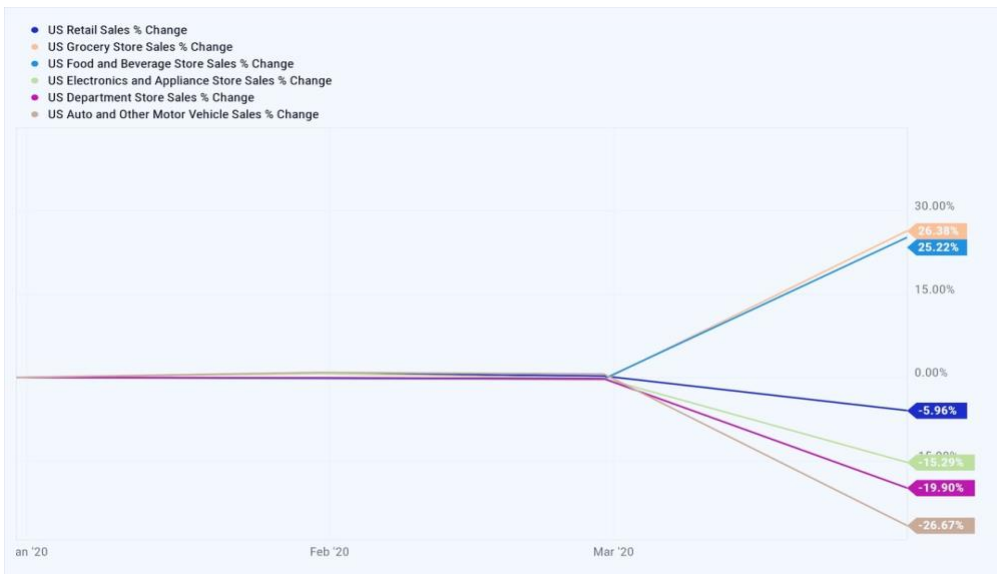
The Energy Sector 4/27/20



- The Retail Sector



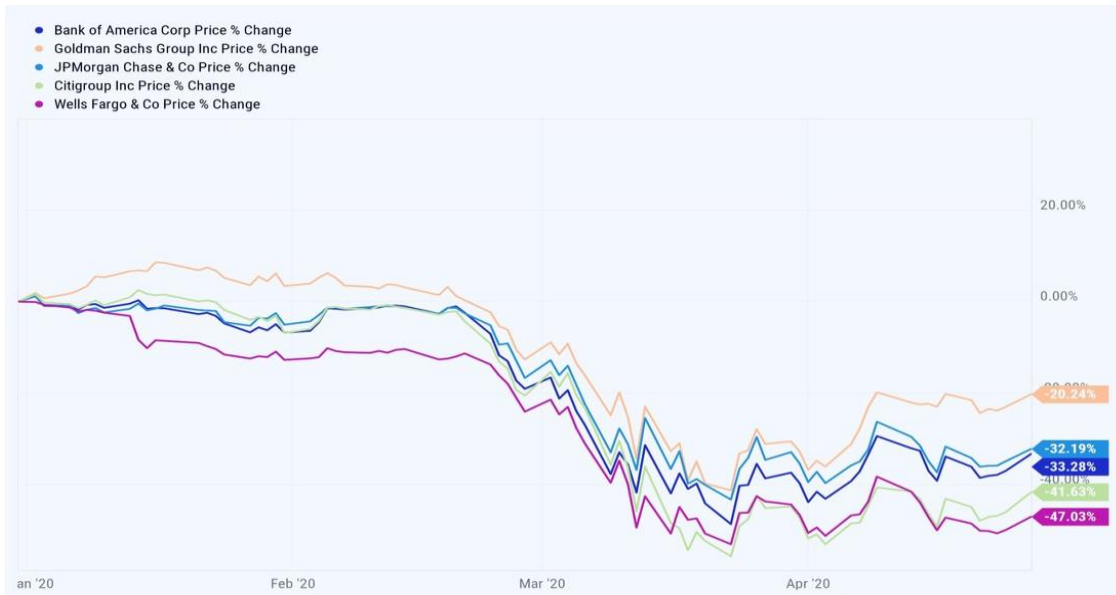
U.S. Retail Sales, Grocery Stores, Food and Beverage, Electronic and Appliance Stores, Department Stores and Auto and other Motor Vehicle sales



- The U.S. Banking Sector



The U.S. Banking Sector 4/27/20



- The Worlds Auto Sector



The Worlds Auto Sector 4/27/20



- Economic Indicators that reported last week: The Economy shows dramatic weakness



The U.S. Benchmarks as of 4/27/20



Economic Indicators Calendar for the week of April 27 to May 1

- U.S. Real GDP Growth: reports on 04/29
- U.S. Personal Savings Rate: reports on 04/29
- U.S. Initial Jobless Claims: reports on 04/30
- U.S. Personal Consumption Expenditures: reports on 04/30
- U.S. Personal Income: reports on 04/30
- U.S. Real Personal Consumption Expenditures: reports on 04/30
- U.S. Real Disposable Personal Income: reports on 04/30

All the benchmarks that will report this week shall determine with more accuracy, the overall shape of the U.S. economy, our plan is to update these numbers sometime next week.

We hope you have enjoyed this edition of The Spyglass Advisor and we welcome your thoughts and comments. Please feel free to call us at 787-247-2500 or write to us at frc@BirlingCapital.com

Francisco Rodriguez-Castro
President & CEO

About Birling Capital

Birling Capital is a corporate advisory and consulting firm that provides extensive corporate finance and advisory services to institutional, government, corporate, mid-market, family corporations, and their owners to identify and resolve problems related to the organization's finances. We use a holistic approach to both assets and liabilities with integrated business, personal and family needs and goals. Over the past two decades, our firm's directors have advised on more than hundreds of transactions in the corporate, healthcare, retail, education, insurance, banking and government markets.

You have particular problems. We provide long-term solutions. Doing the right thing at the right time.

Birling's The Spyglass Advisor © is a publication prepared by Birling Capital LLC and is a summary of recent geopolitical, economic, market, and other developments that may be of interest to clients of Birling Capital LLC. This report is intended for general information purposes only, is not a complete summary of the matters referred to, and does not represent an investment, legal, regulatory, or tax advice. Recipients of this report are cautioned to seek appropriate professional counsel regarding any of the matters discussed in this report considering the recipients' situation. Birling Capital does not undertake to keep the recipients of this report advised of future developments or changes in any of the matters discussed in this report. Birling Capital, The man and log symbol and Birling Capital are among the registered trademarks of Birling Capital. All rights reserved.