Ameriprise Audiocast
From your wallet to Wall Street:
How consumer spending changes could impact your portfolio

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Guests:
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Russell Price

Marcy Keckler:
Hello, I'm Marcy Keckler, vice president of financial advice strategy at Ameriprise Financial. Our conversation today is one of a series of audiocasts from Ameriprise Financial and you can hear the full series at Ameriprise.com/marketvolatility. During the COVID-19 pandemic the basic necessities of life have really become front and center for consumers, as well as producers. When we think about things like food, we know people are making fewer trips to the grocery store. We know some meat processing facilities are closed or struggling to reopen in more safe conditions for their employees. We, we know farmers are challenged as well. We hear stories of disruption in supply chains causing farmers to do things like even plow under or destroy crops and all of these disruptions are really a material change given that the spending that consumers do is really a big part of the U.S. economy, 70% of U.S. economic output, which you'll hear described as GDP or gross domestic product.

So what I want to do today is having a conversation with my colleague, Russ Price. He's our chief economist for Ameriprise and we're going to discuss the economic disruptions across important essentials like food, clothing, fuel, and housing. Welcome, Russ. Thanks for joining me today.

Russell Price:
Hi Marcy. Thanks for having me on.

Marcy Keckler:
So as I mentioned, consumer spending is a really big part of the U.S. economy. Given the changes that we have experienced so far with this pandemic and, you know, what we can see ahead, what do you expect yet this year?

Russell Price:
Well certainly, consumer spending is going to be down pretty considerably this year for a number of pretty obvious reasons. First, we know under the current circumstances that people have been asked to stay at home to further reduce the spread of virus and also a significant number of businesses have also closed. Second, as we all know, there's also been a tremendous, tremendous number of jobs lost. Just over the last six weeks through the end of April, approximately 30 million or 19% of what was the total employment levels have been cut. Just over the last six weeks, we measure that by looking at the number of new unemployment claims that have been registered. Now, many of those jobs

will likely come back fairly quickly once the economy slowly reopens, but certainly not all. So the unemployment rate is going to jump pretty high but we still expect it to be approximately eight or nine, maybe 10% at the end of this year. But a third number of, third factor that's likely to reduce consumer spending is people that are still going to be reluctant to spend at the same levels as they did for previous activities. In other words, things such as bars and restaurants or music venues or amusement parks or sporting events. We're likely to see those, the revenues associated with those consumer spending activities come back quite slowly because not only has people's income been hit by the decline in overall employment, but also people will be concerned about their health, going to venues that have large crowds or close quarters. But the government programs that have been passed for support of the economy through this period do contain some pretty notable programs that provide support to consumer income through this period and so that should provide a pretty sound basis for consumer spending on the other side once the virus subsides or the viral threat, I should say, subsides and economic activity starts to resume.

Marcy Keckler:
So Russ, let's take it down a level. That was a great backdrop of consumer spending overall, but we have been hearing about changes that affect many parts of our everyday essential living expenses. I mentioned food earlier but also we know there is disruption in the supply chain for lots of things, that oil is at a historic low, and, you know, housing prices may be shifting. I'm interested in your perspective on how each of these important parts of our, our daily lives and our essential spending look from your perspective, both what it means for people's day-to-day spending, their pocketbooks, as well as their portfolios, and so if we could start with your thoughts on the food sector, both groceries, restaurants, the whole thing, that would be really helpful.

Russell Price:
Sure, Marcy. From a pocketbook perspective, I would think that people are going to see some give and take over the near time when it comes to a visit to the grocery store. Certainly, we've all seen over the last several weeks the quite significant disruptions where there's been a lack of availability for a lot of paper products such as toilet tissue and paper towels, things, things like that, and other products, particularly those with long shelf lives or products that could be frozen, such as meat. So those, availability of those supplies are slowly recovering and we're unlikely to see major price changes associated with those goods but now due to the disruption that we've all seen in this period, some, there has been some problems in the meat supply, so for beef, pork, and chicken, we are likely to see some tight supplies over the next few weeks or maybe even a few months, and we could see prices increase for those goods, particularly because a lot of production facilities have closed because they've had employees show coronavirus symptoms and be tested positively, and so they've had to close down the facilities. So, so for a lot of products in the grocery store, we're likely to see prices increase a little bit. Restaurants as they come back and as local economies reopen, I imagine consumers are going to see some attractive pricing as they seek to refill their, their revenues and get customers back in the door. So from a portfolio perspective, however, the sector grocery stores have been favored, you know, over the last several weeks within the stock market because of their

consistency through periods such as this, even during economic downturns, people still go to the grocery store, obviously, so they have consistency of earnings and a lot of them provide good dividends. So, so other household goods manufacturers, especially not just paper products manufacturers but also those that produce disinfectants and other consumer healthcare goods have also been favored in the stock market recently, and we expect that to generally continue because those companies, too, generally offer some attractive dividends, some of the major companies in that space. So while the consumers may see a little bit higher prices for their pocketbook from the grocery store, a little bit better prices when they go to consider a restaurant, and the sector looks still attractive for an investment standpoint.

Marcy Keckler:
Thank you, Russ. And so let's go on to another category. That is around clothing and, and maybe retail a little bit more broadly. Particularly interested in your thoughts about that part of our essential expenses, our essential spending and, and what that looks like in people's pocketbooks and portfolios.

Russell Price:
Sure. You know, I think clothing and other types of retail are going to offer some greater spending power for consumers over the intermediate term as those retailers look to attract consumers back to their stores or even attract them to their online presence just to regenerate the sales that have been lost during this current period. So I think people are likely to see some pretty good deals. They'll, they'll see the, some price in deflation, some lower prices, and attractive specials for a period of time as a means to restimulate those, those activities. So from that point of view, I think from a portfolio point of view, I should say, the retailers we're still quite cautious on because it will be a situation where there will be a shakeout of various retail establishments and, and, and the survivors could see the benefits of greater foot traffic and greater, greater sales as kind of some of their competition goes out of business or falls to the wayside or closes stores. So again, it's a mixed bag in the retail space but consumer buying power and be cautious as to over the near term as to trying to figure out who the winners or losers remaining in that sector are likely to be.

Marcy Keckler:
Thank you, Russ, and that's a good reminder, you know, you mentioned some stores maybe needing to close, others maybe having an opportunity to grow or expand. I, I think about their recent announcement that the well-known retailer J. Crew has declared bankruptcy and I think that's maybe an example of what you're talking about, so helpful perspective there. The next category of kind of essential spending that I we need to get your thoughts on is fuel, and I think that, of course, includes, you know, oil overall as I mentioned being at historic low pricing but, you know, gas, utilities, expenses for people that are really driven by fuel, things like as summer happens in the United States, the air conditioning that we want to run. So what are your thoughts on that sector of fuel and what that means for people's spending and, and as well for the portfolio or investment approach?

Russell Price:
Sure, as you mentioned, Marcy, as we all know, energy prices have been quite low recently. It's almost somewhat of a cruel joke that gasoline prices are as low as they are, but none of us have anywhere to go. But in the months ahead, we do expect to see some firming of energy prices, thus gasoline prices are still likely to mai- - remain below their levels of a year ago, but we're likely to see them recover somewhat off of their current levels, but only modestly. We're like to remain in the situation where we, the world has a glut of crude oil and here in the United States, we also have pretty significant supply of natural gas, and natural gas prices are important for all of us because it's, it's a primary form of electricity generation across the United States, and so that means our utility bills should be, at least the price per unit, should be relatively low this year as well. So from an energy standpoint, again, we got good purchasing power. From an investor standpoint, energy sector is again going to be one of those sectors where there's winners and lo- losers. The large major integrated companies that have strong balance sheets are likely, very likely to survive through this period, this period of exceptionally low commodity prices, but there are going to be smaller players in the market that fall by the wayside and so I'd be very careful investing in the energy sector as we're likely to see a rebound but you do have to be selective as to what companies you're looking to align with in that sector at this time.

Marcy Keckler:
Thank you, Russ. And the final category I wanted to get your thoughts on and, you know, essential expenses for all of us, that's housing. You know, things like home prices, mortgages, rent, even if you already have a home, maybe refinancing. How does that whole sector of our daily lives look from your perspective?

Russell Price:
Sure, Marcy. I think that's a very important question because that's a question I've been getting quite a lot recently, and that is we all remember what happened to the housing sector during the Great Recession of 2008-2009 where the value of homes dropped so considerably. This is not a similar situation. In 2007 going into the Great Recession, there was an overabundance of housing. Builders have been quite active building new housing units in the years before that situation. Presently, we came into 2020 with housing in generally tight supply, and when I say housing, I mean, not just for single family homes but also for apartments and condominiums and things like that. So pricing for homes should hold up quite well. Right now the spring selling season has been disrupted across most of the United States because of constraints due to the virus, viral outbreak, but once we get going again, the prices should hold up and sales activity should resume. And mor- mortgage rates that you alluded to are, are quite attractive once again, and so it might pay to consider whether a refinancing makes sense for you, talk to your lender about that would be a good first step, but also there are going to be people that are in a difficult situation because of a job loss or other consideration during this period, and when it comes to paying your mortgage or rent, there have been some new programs passed at the federal government level and even offered via states at the state level and there's a lot of

different programs available and I think a good site to look to for overall view of the various programs is the federal government's Consumer Fi- - Financial Protection Bureau, the cfpb.gov is the, the URL line there. So that can provide an awful lot of very useful information as to the policies that are available to people.

Marcy Keckler:
Thank you, Russ. It's a great reminder that, you know, this current environment is affecting people very differently. As you said, some people may be suffering reduced income or unemployment and certainly taking advantage of the programs available to help keep those really essential things provided for your family like housing are important and the CFPB is a, a great resource for people. Also, your financial advisor can certainly help you important as well if you have thoughts of, of concerned about paying for some of your commitments that contacting those creditors is important. So that's really helpful and, and for people whose income hasn't been disrupted, there might be opportunity, as you said, to consider refinancing, so that's really helpful.

When we talk about housing, yet kind of makes me think about mortgages as one key aspect of many people's housing situation. That's really typically a long-term commitment. You know, 15-year term or a 30-year term and that can be, you know, quite a, quite a long time to be thinking about what about that same sort of long-term time horizon for the U.S., for our debt obligations as a nation? You know, I certainly have heard a number of people talking about the fact that the unprecedented and swift actions taken by the government to try to provide relief during this pandemic are adding to our nation's indebtedness, and I'm interested in your thoughts on what that debt level means for economic prospects, particularly for inflation, what you think that looks like, and maybe a near-term, and even intermediate and long-term.

Russell Price:
Sure, Marcy. That's another very important question that's come up quite a bit recently, and we already had relatively high government debt levels coming into this period. We ended 2019 with what's called debt-to-GDP, that's way government debt is measured across the world, measuring the government debt relative to the size of the underlying economy. Our debt-to-GDP here in the United States was about 80%. Now, that number doesn't include the Social Security Trust Fund IOUs primarily because no Treasury securities have been sold against that, that dollar value. But coming into the year, 80%, all the various programs that you just mentioned about the incremental spending as well as the reduced revenues the government will see through this period, the Congressional Budget Office at the end of April projected that the U.S. government debt-to-GDP would now cross the 100% threshold by September of this year, and that was prior to the incremental enactment of another $484 billion program passed earlier this month, affecting those overall debt levels. So it is going to be a burden on the U.S. economy, particularly the government we get into a situation another recession where the government is asked to support the economy through a downturn. It certainly constrains that. We don't see current debt levels, however, in the intermediate term to be over stringent burden. In other words, we're not at a crisis point as of yet. We still have some years to put in place the right programs and policies to what's called bend that long-term

curve. In other words, at some point in the future, the projections for debt-to-GDP have to start coming back down either through stronger economic growth or higher revenues for the government, in other words, higher taxes, or reduced government spending to get those things back in line. As for the impact on interest rates and inflation, the Federal Reserve is doing a very good job of maintaining very low interest rates at this time and we expect that to continue. As for inflation, given the current circumstances, we do not see the incremental government debt as an inflationary problem primarily because the added government spending is in replacement of declines in consumer and business spending, not incremental to those otherwise formalized level. In other words, we're not creating a situation where demand in the, in the economy overall is exceeding the ability of to supply that demand. That's not the case. So we don't expect inflation to get out of control by any means over the next few years.

Marcy Keckler:
Thank you, Russ. I really appreciate your joining me today and sharing your perspective on these important parts of our daily lives, our important spending in key categories, and I want to say thanks to everybody who joined our conversation today. Appreciate you listening and I want to remind you that all of us at Ameriprise are here to help you. Your advisor knows you and cares about you and understands your goals and they are ready to help you make the right financial decisions and we hope you continue to stay safe and take good care of those around you. Thank you.

Finally, before we leave, I'd like to share some important disclosure information.

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