A LOOK AT THE POST-PANDEMIC FUTURE

Overview

After the Great Recession more than a decade ago, things went back to "business as usual." Many households and companies that suffered economic setbacks recovered and continued the path they were on.

This time may be different. The economic recession in 2020 was impelled by a global pandemic that affected the lives of nearly everyone worldwide. The impact of social distancing led to disruptions in work, school, entertainment, travel and relationships. In fact, some of the accommodations we had to make turned out to be positive, such as telehealth and delivery services. A number of businesses created new revenue streams that are not likely to be abandoned when normal consumer activity resumes.

For better or for worse, many economists observe that the pandemic has served as a catalyst for change across a wide range of industries.

- *"As we move through this health crisis, it's clear the coronavirus has recalibrated consumer and business behavior. Some changes we expect will be temporary…Other changes, however, will lead to structural shifts." – Merrill Lynch*[1]
- *"Pre-COVID life won't be back in 2021." – Deutsche Bank*[2]
- *"The pandemic has re-ordered real estate markets across the board on an unprecedented scale. Some of this may be irreversible." – Forbes*[3]

Moving forward, industry experts anticipate permanent alterations to the way we live, work and play. Some industry changes could result in higher prosperity, while others may lose ground. As for individuals and households, people may approach their decisions a little differently.

Those who witnessed suffering due to the virus itself may now view life as more precious and fleeting, and thus be bolder about pursuing their goals. Others may be more timid about taking risks. And still others who sampled certain freedoms — such as being able to work from anywhere — may not be willing to go back to the way they used to live.

Once COVID-19 is in the rearview mirror, will life go back to normal? Economists say some adjustments we've made will lead to structural changes in our lifestyles and workplaces.

Post-Pandemic Work

The National Bureau of Economic Research reports that between March and April of 2020, 31% of employees transitioned to remote work. One study found that three out of four would like to continue to work off-site permanently, at least some of the time.[4] This could help workers save money on commuting and other expenses — and even move to less expensive locales. In turn, they would have more money for spending, saving and investing.

Meanwhile, an off-site model of staffing could be a win for companies as well. Businesses can downsize their commercial spaces and reduce overhead expenses. This frees up more money for new jobs, innovation, mergers and acquisitions, research and development.

During recessions when companies have to lay off workers, they generally find ways to continue operations with fewer people. Often, they do this so well through the use of automation or contracting that those full-time jobs never return. Given the greater reliance on technology during the pandemic, this could well be the case moving forward.

Another trickle-down effect is that businesses specializing in teleconferencing, communications services and cybersecurity would benefit while transportation companies and downtown businesses that support commuters would suffer. Unfortunately, the latter tend to employ lower-skilled, lower-wage workers, who may need to be "reskilled" or "upskilled" for other types of jobs. The industries currently enjoying higher employment levels include manufacturing, housing, technology and health care.

Post-Pandemic Real Estate

As companies downsize their corporate space, the commercial real estate sector could suffer. On the other hand, reduced rents open up opportunities for entrepreneurs to gain a presence in large metropolitan cities that were previously unaffordable.

As for the housing market, in a normal year, sales of residential real estate generally account for 15% to 18% of the U.S. economy. However, a confluence of factors this year is expected to catapult the residential market to higher numbers. Those factors include pent-up supply and demand, continued low interest rates and a prime demographic that's been sitting on the sidelines far too long — those aged 35 to 44, who saved vociferously during the pandemic with the singular goal of buying a home.[5]

Domestic migration is a key contributor to growth in the residential real estate market. Even during a year fraught with health risks, Americans have been relocating at a higher rate than before the pandemic. Much of this activity is fueled by companies such as Facebook and Twitter giving employees the option to work from home on a permanent basis.

This major shift toward remote work opens up the entire country for home-buying opportunities. High-paying jobs may move out of expensive cities to smaller cities and towns that were too far away for commuting and historically did not have strong employment markets. As well-paid workers move to more rural environs, spending and taxes will increase, giving a boost to local economies with the opportunity to improve schools, shopping, recreation, entertainment and cultural venues.

Remote work even changes the must-have lists of new homebuyers. New construction and renovations will accommodate increased requests for areas to work, teach and exercise in the home, as well as outdoor spaces. City dwellers, in particular, long for porches, patios, gardens and lawns so they won't have to be cooped up inside during the next pandemic.[6]

Post-Pandemic Economic Growth Potential

Personal consumption is the foundation of the U.S. economy, and it always has been. According to the U.S. Bureau of Economic Analysis, personal spending reached $14.5 trillion in 2019. That is more than the combined total consumer spend in China, Japan, Germany, the United Kingdom and India. Domestic consumption not only fuels the U.S. but the global economy as well. Although our population represents less than 5% of the world, American consumer spending accounts for 29% of world consumption.[7]

It is for this reason that the pandemic caused such a quick and devastating setback — a drop of 34.6% — in the second quarter of 2020.[8] It is also why containment of COVID-19 is the key to economic recovery. Without it, spending will not resume to pre-pandemic levels. We have waited for, and relied upon, the development of vaccines to effectively contain the virus. However, without a better plan and stricter controls on future outbreaks, the U.S. may suffer again and again from disruptions that impede consumer spending.

Fortunately, during the pandemic, those with discretionary income saved at unprecedented levels; the U.S. savings rate rose to 19%.[9] Between ready cash and pent-up demand, consumer spending is expected to resume once the coronavirus is fully contained. However, what we spend our money on in the future could change somewhat.

Post-Pandemic Investing

After all, if more people work from home, they don't need business apparel — or even business casual for that matter. If they move to less expensive areas of the country, they'll have more disposable income. If they are determined to spend more time outdoors after being cooped up for so long, how will Americans spend their money?

The answer to that question will likely be reflected in sector stock market performance. Given that interest rates are expected to remain low for the next year, many individuals may look to invest in high-quality U.S. stocks. The following are some areas to consider for post-pandemic investing:

- Be on the watch as more companies move their supply chains closer to home.
- The use of robotics, automation and 3D printing is expected to replace and/or augment workforces.
- Remote work offers potential investment opportunities in e-commerce, e-health and virtual reality platforms.
- Other promising technology themes include investments in "smart cities," tech infrastructure and cybersecurity.

As industries transition, mobilize and innovate to take advantage of the post-pandemic economy, some investors may wish to engage in more active rather than passive management of their portfolios.

Ongoing Sector Opportunities
Pent-up demand will account for a significant share of consumerism post-pandemic, especially in the travel and dining industries. However, some of the in-home entertainment that became popular over the past year will likely remain permanent. For example:[10]

- Consumer technology – ecommerce, delivery services, telehealth
- Subscription services – consumer spending on video streaming and increased development of quality television and films
- eSports industry – helped fill the void of major leagues as an alternative to live sporting events
- At-home fitness industry – blossomed in the wake of health risks associated with traditional gyms, resulting in explosive sales of workout equipment, apps and online classes

Final Thoughts

One of the biggest lessons of 2020 was that our personal circumstances can change quickly, regardless of perceived socioeconomic security. Even general practitioners and specialist physicians had fewer patient appointments and saw their profit margins sink. Many older workers decided to retire instead of risking their health in the workforce. In their place, young adults — many who started their careers at the height of the Great Recession — have stepped into the spotlight as tech-savvy, money-conscious consumers with good-paying jobs, flexible benefits and strong prospects for the future.

In short, one of the biggest repercussions of the pandemic has been the reshuffling of the demographic and economic balance of power in America: Baby boomers have officially passed the torch.

Yet across all demographics, we have learned that people can adapt to circumstances when health and well-being are at risk. This is an important skill, because many households and companies will not be able to return to business as usual. The key to minimizing future disruptive events is to be better financially prepared. Live below your means, have ready cash and create some kind of floor of stable income or income-producing assets.

THE Wealth REPORT

As for investing, it is important to develop a long-term relationship with a trusted advisor who understands your needs. Together, develop a plan flexible enough to weather changing conditions. Ensure that your investment strategy reflects your tolerance for market, employment and pandemic risk, as well as your time frame and goals.

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[1] Lauren J. Sanfilippo and Kirsten Cabacungan. Merrill Lynch. August 2020. "The Great Reset: Work, Play, and Live in a Post-coronavirus World." https://olui2.fs.ml.com/Publish/Content/application/pdf/GWMOL/Great_Reset_Merrill.pdf. Accessed Jan. 18, 2021.
[2] Rounak Jain. Business Insider. Dec. 22, 2020. "'Pre-COVID life won't be back in 2021', says Deutsche Bank's CIO — he also says Asia will continue to rise." https://www.businessinsider.in/international/news/pre-covid-life-wont-be-back-in-2021-says-deutsche-banks-cio-he-also-says-asia-will-continue-to-rise/articleshow/79840216.cms. Accessed Jan. 18, 2021.
[3] Peter Lane Taylor. Forbes. Oct. 11, 2020. "COVID-19 Has Changed The Housing Market Forever. Here's Where Americans Are Moving (And Why)." https://www.forbes.com/sites/petertaylor/2020/10/11/covid-19-has-changed-the-housing-market-forever-heres-where-americans-are-moving-and-why/?sh=2a91755261fe. Accessed Jan. 18, 2021.
[4] Lauren J. Sanfilippo and Kirsten Cabacungan. Merrill Lynch. August 2020. "The Great Reset: Work, Play, and Live in a Post-coronavirus World." https://olui2.fs.ml.com/Publish/Content/application/pdf/GWMOL/Great_Reset_Merrill.pdf. Accessed Jan. 18, 2021.
[5] Ibid.
[6] Peter Lane Taylor. Forbes. Oct. 11, 2020. "COVID-19 Has Changed The Housing Market Forever. Here's Where Americans Are Moving (And Why)." https://www.forbes.com/sites/petertaylor/2020/10/11/covid-19-has-changed-the-housing-market-forever-heres-where-americans-are-moving-and-why/?sh=2a91755261fe. Accessed Jan. 18, 2021.
[7] Lauren J. Sanfilippo and Kirsten Cabacungan. Merrill Lynch. August 2020. "The Great Reset: Work, Play, and Live in a Post-coronavirus World." https://olui2.fs.ml.com/Publish/Content/application/pdf/GWMOL/Great_Reset_Merrill.pdf. Accessed Jan. 18, 2021.
[8] Ibid.
[9] Ibid.
[10] Ibid.

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