



Data and Doughnuts

When assessing an economy that has experienced tectonic shifts, it is vital to hold fast to traditional gauges and data, as well as look at context for new directions and signs of life. The U.S. has come through what will hopefully be the worst of the pandemic. The loss of life and liberty was/is very real, but we can still find ways to thrive after this event. To thrive, we need to assess the economic health of the U.S. and find points to look at for signs of a recovery through all of the noise. For this quick pass, we will look at data and doughnuts for insights.

Assessing the health of an economy is no small feat, especially with a plethora of data points, such as: unemployment, payroll jobs, disposable income, savings rates, retail sales, consumer sentiment, monetary policy, fiscal policy, and the list goes on. Each of these points in isolation aid in assessing the economy in some way, but each might miss important elements. That is why GDP (Gross Domestic Product) is considered to be the bastion of data for assessing economic health. GDP attempts to represent the culmination of a country's output, but for such a large, complicated calculation, there is a three-month delay, as well as future revisions as more data is compiled. That means GDP can be a great indicator of where we have been but not necessarily where we are currently.

Q1 2020 GDP contracted by -5% with estimates for Q2 at -51.2%. Those large numbers make scary, eye-catching headlines, but they are annualized. That means if the status quo continues for a year, i.e. lockdowns, our economy would dramatically contract. Given the Q2 contraction, current expectations for 2020 are negative five to six percent in GDP with a recovery occurring in the second half. This data point has been felt by individuals and certainly businesses, but context is important. GDP, like many indicators, is a measure of the end state and not necessarily all inputs. A \$2 trillion input that is mostly excluded from this number is the CARES Act, which includes the cash deposits to individuals and strengthened unemployment benefits. These payments are called transfer payments and will be included in future GDP prints if used for consumption or business investment and excluded if purely saved or used to reduce debt, a form of savings. This gray area of household incomes, alongside dramatically reduced discretionary spending and supportive debt policies, makes consumer health a wildcard for now. To assess whether consumers are financially healthy in the coming months, watch the doughnuts.

Just literal doughnut sales might not be the best gauge for economic health, but dissecting discretionary spending over the coming months should give us a better picture of recovery strength. Current expectations are for a wave of spending initially after quarantines start to lift, but how consumers continue to spend after that first month will be vital for our service based economy. The positive feedback loop for services is much shorter than for goods production, meaning it is much harder to drum up demand before it occurs to stimulate the economy. A manufacturer can look at expectations for the future, start to produce to meet those needs and participate in creating economic activity versus a service oriented business that can only fill needs and orders as they are received. Services rely more heavily on volume and flow but also have

Cultivating
relationships
for over
35
Years
Since 1984

VALICENTI ADVISORY SERVICES, INC.

400 East Water Street
Elmira, NY 14901
607-734-2665
Fax: 607-734-6845

447 East Water Street
Elmira, NY 14901
607-733-9022
Fax: 607-734-6157

24 West Market Street
Corning, NY 14830
607-936-1203
Fax: 607-936-0213

www.valicenti.com

Asset management
as individual as you

An on-line publication by
The Investment Committee

the potential to be working at full capacity quicker. Once everyone breathes some fresh air, we may have a better understanding of the financial health of the U.S. consumer, and therefore, the health of the U.S. economy.

While you are sipping coffee and eating a doughnut at home for now, reflect on your own situation and think about what that might be like relative to others. The law of averages could give you a sense of where we are currently. And rest assured, we will be looking for opportunities wherever the Bull and Bear battle goes next.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Valicenti Advisory Services, Inc. ["VASI"]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from VASI. Please remember to contact VASI, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/ revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. VASI is neither a law Firm, nor a certified public accounting Firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the VASI's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request. Please advise us if you have not been receiving account statements (at least quarterly) from the account custodian. Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your VASI account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your VASI accounts; and, (3) a description of each comparative benchmark/index is available upon request. Please Note: Limitations: Neither rankings and/or recognitions by unaffiliated rating services, publications, media, or other organizations, nor the achievement of any designation, certification, or license should be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if VASI is engaged, or continues to be engaged, to provide investment advisory services. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser. Rankings are generally limited to participating advisers (see link as to participation data/criteria, to the extent applicable). Unless expressly indicated to the contrary, VASI did not pay a fee to be included on any such ranking. No ranking or recognition should be construed as a current or past endorsement of VASI by any of its clients. ANY QUESTIONS: VASI's Chief Compliance Officer remains available to address any questions regarding rankings and/or recognitions, including the criteria used for any reflected ranking.