

Some Thoughts On The Upcoming Year

By Wes McComb

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We have started our client reviews for the past year. With 2020 being a year of small, large and massive events that no one predicted, I am being asked what 2021 has in store for us. When people are caught off guard, when they feel that institutions and sources of information that they trusted have let them down, there seems to be a strong need to have answers to questions that often have no plausible explanation. I don't know how Biden's presidency is going to affect us or if the new strain of Covid-19 will delay us getting back to a more 'normal' life. Predictions, if being correct is the aim, are always perilous and must be attended by many disclaimers.

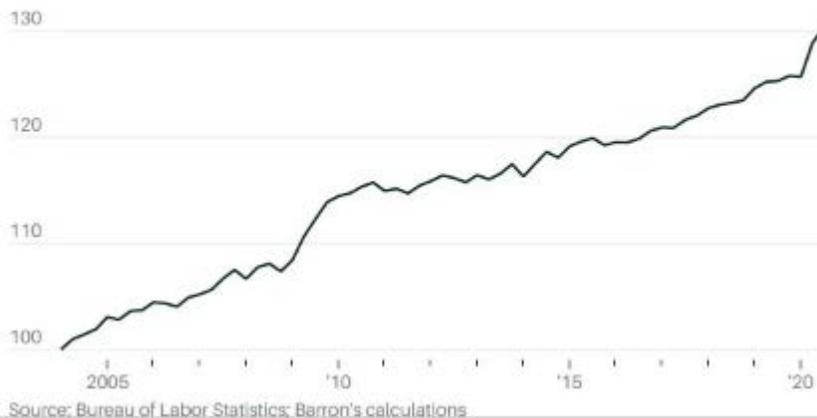
What I can show you, are two charts and I will try to interpret them for you.

The first chart is Labour Productivity since Covid-19 hit us.

Silver Linings

Labor productivity has tended to spike during downturns as companies slash costs.

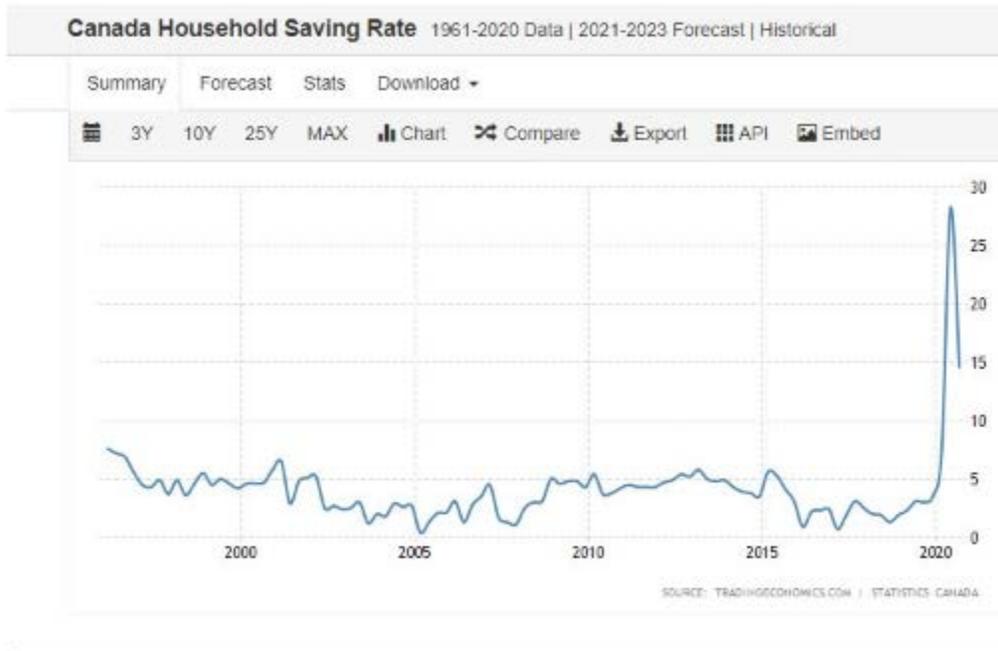
Output per hour worked, nonfarm businesses, 2004 Q1 = 100



As you can see there has been a dramatic increase in the amount of productivity per worker since March. This has happened during previous downturns as employers had fewer workers doing more work but this time there has been a fundamental shift in work life. I know that I am working more hours and I feel like I am getting more done by working from home. There is no commute time so that can be dedicated to more fruitful employment (though I do miss my bike ride to work and I can't seem to get myself to go for a cycle just for the exercise). This enhanced output is being multiplied by tens of millions of people around the world. Plus, it is a sustainable productivity boost; with Zoom, Microsoft Teams, DocuSign, Adobe etc. making this shift an exciting time for many of us.

In addition to that, the wealth effects of this improved productivity, is the increased savings that many of us have suddenly realized are possible.

This next graph shows how Canadians- and this can be extrapolated to most other countries-have accumulated four or five years worth of saving in the just nine months. (see graph below)



The US Fed estimates that Americans have saved over two trillion dollars in the last nine months. Add to this the additional disposable income made possible by refinancing of mortgages at much lower interest rates and the promise of an enormous consumer spending potential once the lockdowns end.

With productivity improving and extra cash in the bank for so many individuals, the asset repricing that we have seen over the last several months may continue. It is a time of change and like any shift there will be winners and losers. This time it looks like the winners are going to outweigh the losers to a very large degree. Let us hope that-and this has been the case with past productivity increases-everyone will get to eventually benefit.