

# Shedlock: The Economy Won't Soon Return To Normal

**The economy won't soon return to normal. Here's why.**

Numerous chain reaction ripple impacts will delay the economic recovery. Let's start with a look at car rental companies.

## No Magic Answers

Bankruptcies happen when there is too much debt leverage accompanied by some sort of economic shock.

For example, Hertz filed for bankruptcy on Friday. Now, the entire rental industry is [Scrambling for Answers](#), but there really aren't any.

Covid-19 caused air traffic to plunge 90%. But blame debt for the Hertz bankruptcy, not Covid.

## Layoff Impact

CNN comments on the [Hertz Bankruptcy](#).

Hertz has notified 12,000 employees in North America that that they were losing their jobs, and another 4,000 are on furloughs. Its US workforce stood at 38,000 employees at the start of the year, with about a quarter of them represented by unions.

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## Auto Manufacturing Impact

Ford (NYSE:F), GM (NYSE: GM) and Fiat Chrysler (NYSE: FCAU) all face a steep drop in rental fleet purchases.

Last year, Hertz alone bought 1.7 million US automobiles, about 10% of the US auto industry production according to Cox automotive.

CNN commented "Avis Budget said it expects its fleet in the Americas will be reduced by 20% by the end of June, compared to a year earlier."

## Used Car Price Impact

If Avis, Hertz, Budget, etc., have too many cars, then a flood of cars will hit the used car market. It's already happening.

*Hertz had already announced it would not purchase any new cars for the rest of this year, and that it is starting to sell its vehicles as used cars. As of early March, it had sold 41,000 cars out of its US fleet and another 13,000 out of its European fleet.*

## Regional Impact

On Friday, the FAA granted airlines the right to halt service to regional cities.

As many as 60 cities face flight shutdowns.

For details, please see [Airlines to Abandon Dozens of Regional Cities](#)

## Corporate Travel Impact

1. Companies forced to allow more work-at-home have noticed no loss in productivity.
2. The same applies to use teleconferencing instead of air travel.

Both cut down on eating out and driving (think local restaurants and gas stations).

Point number two is an additional hit to car rental companies and hotels.

This means more layoffs or fewer people recalled from furloughs.

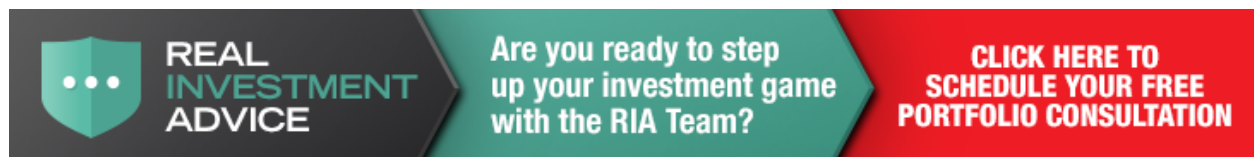
## Attitude Change

It's important to factor in the change in consumer attitudes.

Some retail is going away, never to come back. It will take a while for people feeling comfortable having to sit in a full capacity theater, stadium, or airplane.

- Some people forced to cut their own hair will continue doing so.
- Some people who seldom cooked, learned how. They will be slow to return to eating out for many reasons.
- In general, any persons who suffered a huge income reduction will be very slow to resume eating out, traveling, or buying a car.

To entice people to buy cars, the automakers will have to cut prices, and perhaps dramatically given a new model year is coming up.



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## Existing Home Sales Plunge 17.8% Much Worse is on the Way

Note that [Existing Home Sales Plunge 17.8%](#).

April will not mark the bottom in sales. Here's why.

- Existing sales are recorded at closing whereas new sales are counted at signing.
- April sales represent transactions that occurred in February and March.

May sales (transactions in March and April) are sure to be worse. Even June sales could be worse.

## **Real Estate Agent Impact**

Price is sure to follow traffic lower, and real estate agents will get hit twice. First on the amount of traffic, and second as prices decline.

April sales price rose, but that was heavily skewed by the reduction in sales.

## **Grim Economic Data**

1. 5/8: [Over 20 Million Jobs Lost As Unemployment Rises Most In History](#)
2. 5/15: [Retail Sales Plunge Way More Than Expected](#)
3. 5/15: [Industrial Production Declines Most in 101 Years](#)
4. Also on 5/15: [GDPNow Forecasts the Economy Shrank by a Record 42%](#). It's 41.9% as of May 19.

## **Ripple Impacts May Last Years**

The economic data has been grim and the ripple impacts may last for years.

## **Powell Warns Recovery May Stretch to the End of 2021**

Fed Chair [Jerome Powell Warns Recovery May Stretch to the End of 2021](#).

Powell is likely to be optimistic.

## **Fed in Panic Mode**

Seldom does the Fed openly ask Congress to spend more money or to engage in fiscal stimulus.

But that happened on May 14 when both Powell and Minneapolis Fed president Neel Kashkari.

For details, please see [Fed Promotes More Free Money](#).

This is a sure sign the Fed is in a state of panic about the economy.

## **Global COVID-19 Risk Ranges Up to \$82 Trillion**

To understand the total global risk, please see [Global COVID-19 Risk Ranges Up to \\$82 Trillion](#)

Anyone who expects the economy to make a fast recovery out of this mess is delusional.