

MACROCOSM

Make America Open Again

Friday, April 17, 2020

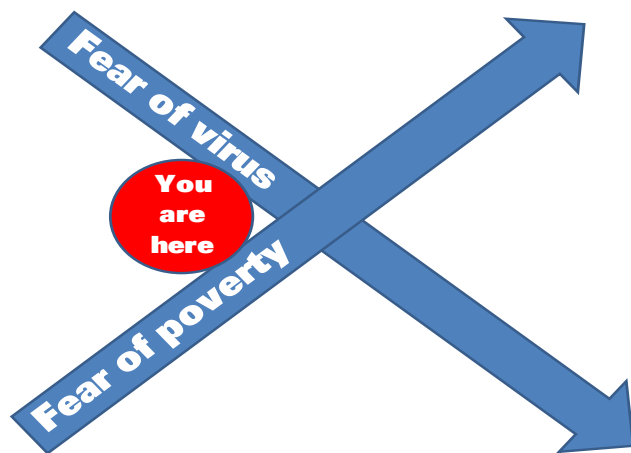
Donald Luskin

The public is starting to fear poverty more than the virus. Politicians will have to listen.

The most critical dynamic now in the global Covid-19 crisis is the imminent crossover of two competing trends in public sentiment: the declining fear of the virus, and the rising fear of poverty (please see the diagram below).

These trends are about to cross, as demonstrated this week in [mass protests against over-reaching lockdowns](#) in Michigan, Kentucky and North Carolina. When these trends cross, sentiment will swiftly shift to a great public clamor to re-open the economy, and this will exert an irresistible demand effect on the politicians who, until now, have catered to the demand for safety at any cost (see ["Video: What you're not hearing about the cost-benefit trade-offs in the war on Covid-2019"](#) April 7, 2020). It's coming any day now. The economy will be up and running faster than anyone expects.

Critical dynamic in public sentiment



Source: TrendMacro calculations

Update to strategic view

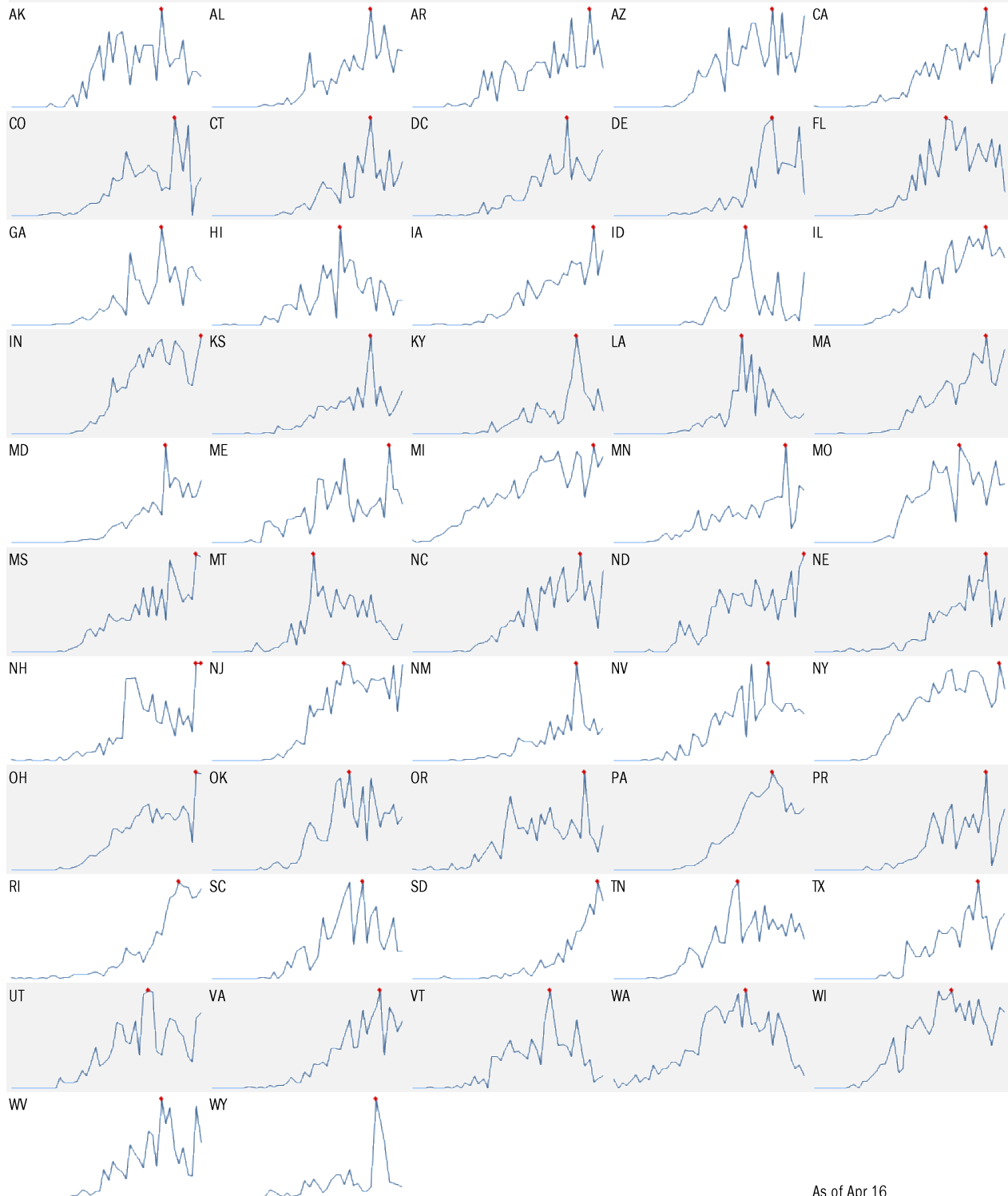
US MACRO: The public's fear of poverty is about to supersede its fear of Covid-19, and politicians will be quickly forced to re-open the American economy. Trump has cleverly changed the narrative toward re-opening, and tricked governors into being on the hook for it. We have succeeded completely in "flattening the curve" and "slowing the spread," so the time is right. New White House guidelines for phased re-opening are simple, science-based and expert-driven. A number of states are qualified to begin phase one immediately, and others should be there in about two weeks. Monetary and fiscal relief have been both massive and pre-emptive. We expect a rapid V-shaped recovery, as we historically have seen in brief recessions.

[\[Strategy dashboard\]](#)

- President Donald J. Trump has been surfing on this new wave of sentiment all week, culminating in last night's release of federal guidelines called ["Opening Up America Again."](#)
- A week ago, in his ineffectually annoying but weirdly effective style, he shifted the narrative to re-opening the economy by outrageously [claiming that he, as president, had "absolute authority"](#) on the matter. His Democratic governor rivals were only too happy to push back – for example, a group of Northeastern governors formed a

coalition to develop re-opening plans themselves, which [they claim will be “Trump-proof.”](#) They’ve fallen into Trump’s trap: *he’s got them making re-opening plans, and they’re on the hook for them.*

Confirmed Covid-2019 cases state-by-state from March 4



Source: [Covid Tracking Project](#) TrendMacro calculations

- Now with the trap sprung, [Trump has pivoted to talking instead about “empowering governors”](#) to carry out the new White House guidelines, each in his or her own way.
- These guidelines have the look-and-feel of having been developed by medical experts, not politicians. The words “Trump” or “president” appear nowhere in the document. *Governors of blue states, for whom we believe lockdowns have become a game of political posturing as much as public health, will no doubt at first try to drag their feet. But they will have a hard time justifying not re-opening when their states meet these guidelines, which are so self-evidently science-based and expert-driven. At that point, the political calculus for them will shift from the gains for resisting Trump, to the losses from inflicting continued unnecessary economic harm on their electorates.*
- Happily, in the guidelines there are no impossibly high [technocratic hurdles to be jumped](#), such as mass antibody testing to determine who can and can’t go back to work. It’s common-sense stuff, staged over three phases. To get started on phase one, a state must have a “Downward trajectory of documented cases within a 14-day period.” Some states already qualify (please see the charts on the previous page). We’re pretty sure the rest will in a week or two, despite [new moves to re-define “cause of death”](#) based on mere guesswork, which will have the effect of [making it appear as though more people have died from the virus](#).
- *It’s time.* Remember, the original idea of the lockdown was to “flatten the curve” to “slow the spread” of the virus, so it wouldn’t collapse the health-care system. *That* mission has been absolutely and totally accomplished – or maybe it was never necessary to begin with. The seemingly-authoritative “Miller model” of the University of Washington’s Institute for Health Metrics and Evaluation has systematically and drastically revised down, in mere weeks, the number of peak hospital ICU beds required in the pandemic (please see the chart below). It is a fallacy that these downward revisions are due to the success of strict lockdowns. The

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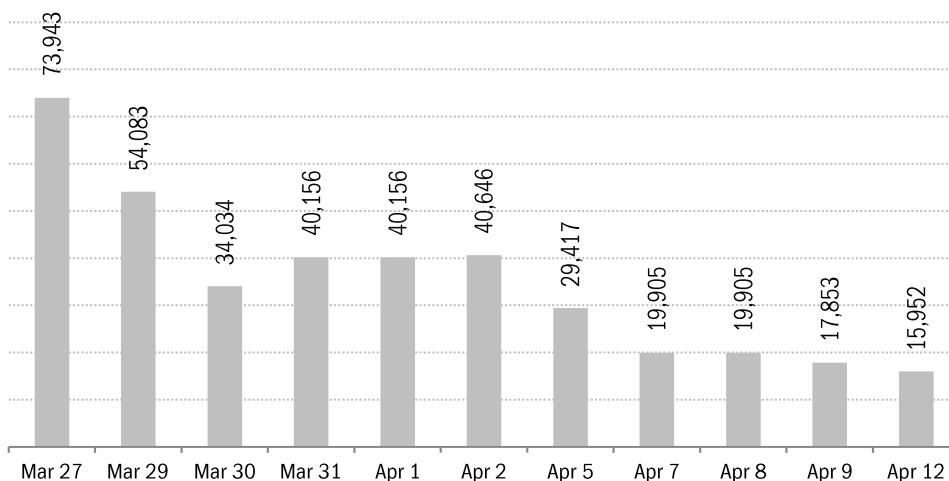
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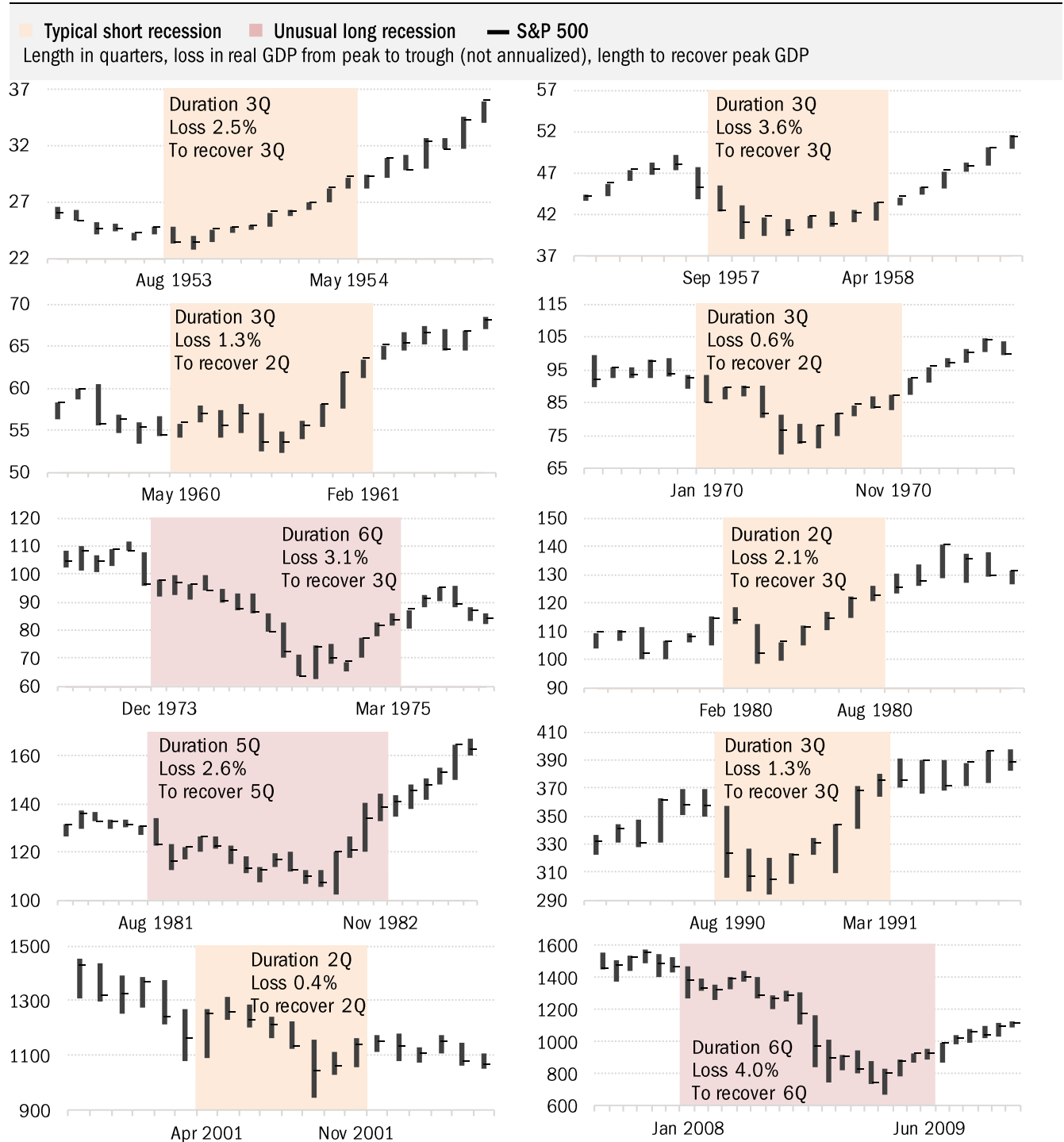
Projected number of hospital ICU beds required at pandemic peak, by estimate date



Source: [IHME](#), TrendMacro calculations

lockdown assumptions in the model haven't changed over just three weeks. The model was simply wrong. It was too pessimistic about the transmissibility and severity of the virus. But be that as it may, the value of locking down the economy any further in order to preserve hospital capacity has fallen effectively to zero.

- So to continue at this point is beginning to feel to the public like moving the goalposts, as a client recently put it. Who will listen to experts who do that – the same experts who, [six weeks ago, said](#)



Source: Bloomberg, NBER, TrendMacro calculations

[face masks don't help](#), then [two weeks ago said that they do](#), and indeed are [now forcing you to wear them](#)? Surely, severe economic costs cannot sustainably be imposed on *everyone*, when only 2 out of 1,000 Americans are confirmed cases (see [“Data Insights: Covid-2019 Monitor”](#) April 17, 2020), and [according to polls](#) only 22% of Americans even know anyone who has been infected.

- If we are right that the re-opening of the economy is now days or weeks from beginning, then we have reason to maintain our view that there will be a rapid V-shaped recovery from this man-made recession (see [“On the March Jobs Report, and Being in Recession \(Whatever that Means\)”](#) April 3, 2020).
- *The key dynamic is that, historically, across the 10 post-war recessions, the time it takes to re-attain pre-recession peak output is more correlated to the duration of the recession than to its depth* (please see the charts on the previous page). *Short recessions take a short time to work back to the prior peak, long recessions take a long time.* That's because in a long recession the stock of human, physical and financial capital is eroded and dissipated. In a short recession it is preserved intact and in place and doesn't have to be repaired or reassembled.
- *This recession will obviously be deep – it already is – but we think it will be brief, and that's what counts.*
- *The “stimulus” – relief measures, actually – from the Fed and the Congress are like a bridge across the recession. A bridge doesn't care how deep the river below is – it only cares about the distance from riverbank to riverbank. It's difficult to bridge a long distance, and easy to bridge a short one.*
- It's no coincidence that the US equity market bottomed on March 23, when the Fed first announced its panoply of lending programs. We pointed out that very day that our equity risk premium model showed stocks to be precisely as deeply undervalued as they were on the day of the bottom on March 9, 2009 (see [“On the Fed's Massive Intervention”](#) March 23, 2020).
- *Very significantly: because this recession was man-made and on purpose, it was perfectly anticipated. So monetary and fiscal relief have been applied not only massively, but more important, pre-emptively.* We can't think of any prior recession in which that was the case.

Bottom line

The public's fear of poverty is about to supersede its fear of Covid-19, and politicians will be quickly forced to re-open the American economy. Trump has cleverly changed the narrative toward re-opening, and tricked governors into being on the hook for it. We have succeeded completely in “flattening the curve” and “slowing the spread,” so the time is right. New White House guidelines for phased re-opening are simple, science-based and expert-driven. A number of states are qualified to begin phase one immediately, and others should be there in about two weeks. Monetary and fiscal relief have been both massive and pre-emptive. We expect a rapid V-shaped recovery, as we historically have seen in brief recessions.

