High Noon in the Schoolyard

Key takeaways

- The debate over school openings is being sharpened by a worsening pandemic in parts of the country and the economic costs of keeping classrooms closed.
- A delayed start to in-school learning is already bringing pain to retailers. Back-to-school sales are the second-most important shopping period of the year. Disruptions are an added blow to an industry that has been among the most exposed to the pandemic’s economic fallout.

What it may mean for investors

- Economic fallout from a delayed reopening of the nation’s schools adds to outlook uncertainties, strengthening the case for balanced portfolios tilted toward earnings-resilient U.S. stocks. We believe quality investment-grade and high-yield bonds stand to benefit from interest rates suppressed by the Federal Reserve’s aggressive credit easing.

When and where for the upcoming school year?

Families and retailers are facing a moment of truth as they brace for the coming school year. Rising COVID-19 infection rates are hitting the nation’s education system as hard as they are the economy. School start dates still are up in the air in many parts of the country. Equally unclear is the kind of education—virtual, in-school, or a combination of the two. Schools in large, urban districts are most at risk. The Los Angeles Unified School District, the nation’s second largest, has opted to begin the year with a virtual, at-home reopening, and other large districts could follow.

The most compelling reason to avoid in-school learning is, of course, the worsening pandemic in parts of the country, while others see benefit to students, working parents, and the economy in reopening classrooms.

The quandary facing parents between in-school and virtual learning is illustrated in an early-July Outschool survey showing that more than 60% of surveyed parents were uncomfortable sending children to school in the absence of a vaccine—but nearly the same percentage were dissatisfied with the education received through remote instruction.¹

For the U.S. economy, a more immediate concern is the lost output and wage income of parents forced to stay home for a lack of affordable childcare when schools are closed. A CNBC survey taken in late May showed 60% of parents needing childcare during the first few months of the pandemic had no outside support because of day-care closures. The potential economic impact is significant. There were 30.5 million households in 2019 with children under 18, according to U.S. Labor Department estimates, three quarters of which were dual-income families or headed by single parents and most exposed to delayed in-school instruction.²

A Northeastern University survey in May and June of 2020 showed 13% of working parents losing their jobs or reducing their hours because of inadequate childcare.³ The Wall Street Journal points out in a recent article that the situation likely will worsen in the fall, when shelter-in-place restrictions for both parents likely will be less common.⁴ The Labor Department estimates that half of all jobs require on-site presence, leaving many dual-income and single-parent households with a dreadful choice between jobs and family care.

Economic pressure to reopen schools is particularly high in the midst of a fragile economic recovery. In fact, early-warning weekly and daily economic data have been signaling slowing growth since mid-June, coinciding with increased COVID-19 infections disrupting the reopening of business activity.

**A not-so-wonderful time this year**

Uncertainties over the timing and nature of the school year are wreaking a different kind of havoc on the nation’s retailers. At stake is a back-to-school shopping season ranked second only to Christmas (see Table 1) in its importance to the industry. The inability to get a good fix on the timing and nature of the back-to-school season has left revenue estimates all over the lot.

The National Retail Federation predicts a $21 billion increase in back-to-school spending by parents with children in elementary school through college, to nearly $102 billion. That increase hinges on a rotation toward “big-ticket” computers and other electronics needed for at-home learning. However, spending on computers and other technology equipment jumped earlier this year when schools first shut down, taking some of the steam out of potential spending. That’s one reason why some expect declines in spending this back-to-school season, adding to reduced sales of clothing and other accessories. The pullback in school-related spending is expected to be particularly great for those college students staying at home, foregoing spending on apartment furnishings, college gear, and other spending associated with on- or near-campus living.

### Table 1: Planned spending during 2019 shopping periods (billions of dollars)

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<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Christmas</td>
<td>$730</td>
<td>Super Bowl*</td>
<td>$17</td>
</tr>
<tr>
<td>Back-to-school</td>
<td>$81</td>
<td>Halloween</td>
<td>$9</td>
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<tr>
<td>Valentine’s Day*</td>
<td>$27</td>
<td>Fourth of July</td>
<td>$7</td>
</tr>
<tr>
<td>Mother’s Day</td>
<td>$25</td>
<td>Father’s Day</td>
<td>$7</td>
</tr>
<tr>
<td>Easter</td>
<td>$18</td>
<td>St. Patrick’s Day</td>
<td>$6</td>
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Retailers trying to plan for the season are getting little early guidance on spending plans from parents. Over 25% of them surveyed by Deloitte LLC in early July said they were unsure when they would do their back-to-school shopping because of uncertainty over just what kind of school season it will be. Compounding the potential hit to retailers from a delayed school opening is the threat of added margin pressure from discounting to move excess inventory.

Profit margins already are being squeezed by increased competition for back-to-school sales from major online retailers that have the advantage of contactless shopping. For investors, changes in the selling season likely will distort reported year-over-year earnings results now that the shopping season is being pushed back into late August. At issue are the longer-term ramifications of the pandemic, accelerating the rotation already underway toward online learning and retailing.

**A bit more gasoline on the fire for investors**

A delayed reopening of the nation’s schools would come at a bad time for investors already grappling with signs of slowing economic growth. Its link to the all-important Christmas selling season would make disappointing back-to-school sales all the more worrisome for the economic outlook. Economic uncertainties created by another disrupted school year may not be an overriding concern, but it does add to a list of worries on Main Street and on Wall Street. That strengthens the case for a portfolio tilted toward higher quality, more resilient U.S. stocks less exposed to the economic cycle. We believe higher quality investment-grade and high-yield bonds also should remain attractive, potentially benefiting from interest rates held low by a weak economy and a highly supportive Federal Reserve.
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Definitions

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