CORONAVIRUS | COVER

Keeping Schools Closed Could Cost the U.S. Economy at Least $700 Billion

By Lisa Beilfuss Updated August 24, 2020 / Original August 21, 2020 Order Reprints Print Article

Photograph by Andrew B. Myers

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The only thing standing between a recovery and a double-dip recession might be the back-to-school season.

As August turns to September, some 56 million K-12 students are starting a school year like no other. Most students will be learning from home; others will be back in school full time; and still others will experience a hybrid model that combines the two. The risks to reopening schools are clear—they could become a new epicenter for Covid-19—but the costs of keeping schools closed could be even higher.

Schools are a vital, if often overlooked, cog in the U.S. economy. They provide child care for working parents, fuel spending at retailers, and fund businesses that provide food for cafeterias and dispose of the garbage they create. Their absence could cost the economy $700 billion in lost revenue and productivity—and that's before considering potential long-term damage to the labor market.

Photograph by Andrew B. Myers

What began as a lockdown-induced recession, as Covid-19 cases started to rage in March, has transformed into what George Washington University economics professor Tara Sinclair calls "the school-closure recession." At stake, she says, is parents' ability to work and the willingness and ability of consumers to resume normal activities.

No industry is tied more closely to a normally functioning school system than retail. In an ordinary year, back-to-school is second only to the holiday season for retailers, representing about 15% of annual sales for department and specialty stores, according to Cowen.

In 2019, back-to-school spending totaled $26.2 billion, according to the National Retail Federation. A survey conducted by retail-industry consultant First Insight suggests that those sales figures could be sharply lower this year, as 52% of parents aren't making back-to-school purchases and 22% plan to buy fewer items than normal. Retailers are bracing for a 20% decline in back-to-school sales year over year, says Cowen analyst Oliver Chen.

The pain has already shown up in earnings at retailers like Target (ticker: TGT). The chain's chief financial officer, Michael Fiddelke, told investors on a call on Aug. 19 that same-store sales have decelerated "due largely to softer sales in our back-to-school categories," although sales are still expected to be strong overall.

BACK TO SCHOOL

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Related manufacturers are also feeling the pinch. Newell Brands (NWL), which makes pens and markers, among other products, cited a "reluctant and hesitant back-to-school shopper, given the uncertainty and lack of clarity related to school starts" for softness in U.S. consumer spending.

Retail spending, though, is dwarfed by school budgets. State and local governments spent some $660 billion on schools in 2017, according to the Urban Institute. Now, school budgets could be cut by as much as a quarter, according to some estimates. In the past, budget cuts meant larger class sizes, but that's precisely what schools can't have right now, says Sinclair. As a result, some of the pain will have to fall on companies that service schools.

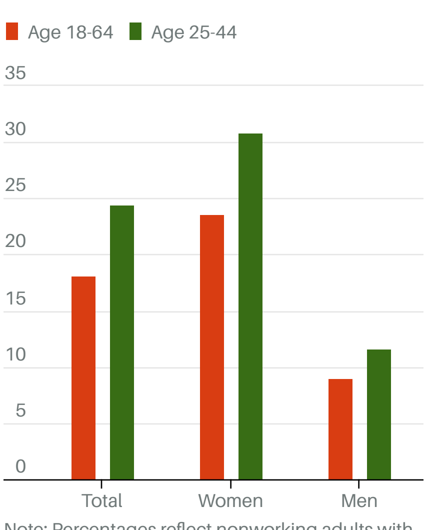
Take Aramark (ARMK), one of the largest school-lunch providers, with contracts including the Chicago Public Schools system. Revenue dropped by half in the third quarter because of Covid-19, and the stock is down 46% this year. ABM Industries (ABM), which provides janitorial and other services and already took a $9 million hit in education revenue during its second quarter, warned on its most recent call with investors that clients in its education unit are cutting expenses as school budgets across the country are slashed. Trash companies like Waste Management (WM), meanwhile, get about 4% of the revenue from schools, according to Jefferies analyst Hamzah Mazari—a small but not insignificant portion of sales.


Photograph by Andrew B. Myers

All of this pales in comparison to the biggest hit by far, from lost productivity as parents juggle work and child care. Ross Hammond, senior fellow at the Brookings Institution, estimates that lost productivity alone is costing the U.S. economy about $56 billion a month. That translates to more than $500 billion over a nine-month academic year—or 2.3% of gross domestic product—if schools nationwide stay closed.

Sidelined

The share of parents who aren't working due to child-care reasons has surged during the coronavirus.



Note: Percentages reflect nonworking adults with children excluding those who are retired or not interested in working.
Source: U.S. Census Bureau

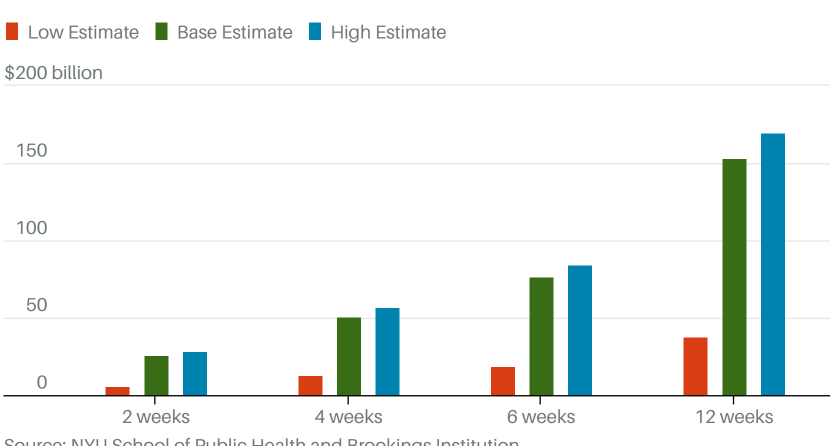
And that's just the immediate damage. As the pandemic lingers, children without in-person instruction risk falling behind, and some families with two incomes are making the decision that one parent—usually the mother—will step out of the workforce in the absence of child care via school. Data from the Bureau of Labor Statistics show that the number of people who would like a job but aren't working because of child-care problems has risen to one million from 624,000 in January. That calculation might make sense in the short run, but workers who leave the workforce for even a few years are more likely to be laid off, lose promotions, and earn less, eroding lifetime income and retirement savings.

Sara Ellis Hooker is one of many working parents across the country grappling with the logistics and quality of at-home schooling. Early on in the pandemic, she was able to work from home, as her children attended school virtually. But after being furloughed and recently called back to her job in operations at a hospital outside of St. Louis, working from home isn't an option. "It has crossed my mind, taking a leave from work," Hooker says, after finding out that her sons, ages 13 and 9, and daughter, entering kindergarten, will start the year at least partially online. "But we can't financially do it."

Even if staying home were an option, Hooker says, it's not a panacea. "I'm not so worried about the sick part; I'm more concerned about the education part," she says. "I am not a school teacher, and I'm not confident I can teach my kids in the right way." That's especially true for one of her sons, who, like 14% of public school students, has a learning disability and faces bigger challenges when it comes to remote learning, and it's not to mention the swath of children without reliable computer and internet access.

It Adds Up

The estimated costs of workplace absenteeism will take tens of billions of dollars out of the economy each week schools remain closed.



Source: NYU School of Public Health and Brookings Institution

Those stark choices have led to a booming business for those who can provide child care and tutoring. Suzie Zeldin, co-owner of New York–based SmartSitting, says business has never been busier. She's seeing rising demand for full-time, live-in nannies—the idea being that live-in help is less risky in terms of virus transmission—in cities across the country, with costs of about $80,000 a year. Some families are hiring private educators for pods, or small groups of similar-age children, something that was basically nonexistent before the pandemic, says Zeldin. Of course, these solutions are available only to those who can afford them.

The good news is that every child going back to school has a multiplier effect, says Jefferies chief economist Aneta Markowska, referring to knock-on effects like apparel purchases that come with returning to school and work. With no more than a third of students heading back to school either full time or in a hybrid model, according to Jefferies, that's not as much as it could be—but it is still better than having none.

Lesson Plans

Schools across the country and in U.S. territories are reopening in part, in full, or virtually only amid a patchwork of policies to avoid Covid-19 outbreaks.

District	State	2018-19 Enrollment	Start date
Hybrid/Partial			
New York City	NY	960,484	Undecided
Hawaii Department of Education	HI	181,278	8/17/2020
Duval	FL	130,229	8/20/2020
Davis	UT	74,289	8/25/2020
Douglas County	CO	67,591	8/17/2020

District	State	2018-19 Enrollment	Start date
Remote learning only			
Los Angeles Unified	CA	495,255	8/18/2020
City of Chicago (SD 299)	IL	359,476	9/8/2020
Miami-Dade	FL	350,434	8/31/2020
Clark County	NV	330,225	8/24/2020
Puerto Rico Department Of Educ.	PR	307,282	8/17/2020

District	State	2018-19 Enrollment	Start date
Full in-person reopening available for all students			
Dallas	TX	155,119	9/8/2020
Cypress-Fairbanks	TX	116,512	9/8/2020
Polk	FL	101,408	8/24/2020
Pinellas	FL	100,948	8/24/2020
Lee	FL	94,410	8/31/2020

Data as of 8/14/20
Source: Education Week

"We're starting from such a big hole, it's still an improvement from where we were a few months ago," Markowska says.

The more students who return, the better the chance the U.S. economy can recover from the coronavirus recession. But for the millions who can't return, school closings will damage labor supply and hinder upward mobility for years to come.

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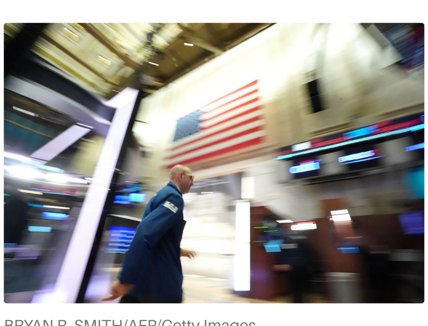
MARKETS

The 'Disturbing Reality' Fueling This Bull Market

By Mark Hulbert Updated August 24, 2020 / Original August 21, 2020 Order Reprints Print Article


BRYAN R. SMITH/AFP/Getty Images

This bull market is behaving in "curiouser and curiouser" ways, as Alice in Wonderland might say.

So curious, in fact, that some are raising serious questions about its underlying health.

Earlier this week, the S&P 500 soared to a new high, wiping out its losses since the worst of the coronavirus-induced downturn in March. Stocks continue to shrug off historic unemployment rates and other economic warning signs.

To be sure, no two bull markets are alike. Just because the economy is not confirming the stock market's strength doesn't necessarily mean anything is amiss. But this argument is a double-edged sword: If the past no longer can instruct us about what to expect, then all bets are off.

In the hope and belief that history still does have something to teach us about how a bull market should behave, I want to note several unusual aspects of the economy and stock market's behavior since the March lows—during which the S&P 500 index has climbed more than...

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