

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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A Wobbly Economy That's Approaching Three Fiscal Cliffs

Americans love hiking toward mountainous cliffs. The closer you get to that alpine edge, the more spectacular the vista. You snap a few pictures and then carefully retreat. Or, if you dare to test fate, you can step inches closer to the very edge to capture the perfect shot. Not to worry, you think. But take one reckless step beyond that final precipice and, well, there's no need to dwell on what follows.

I don't mean to push this metaphor too far, but the US economy now faces not one -- but three simultaneous cliffs, each facing an abyss below.

The first fiscal cliff is the prospect of a government shutdown in two weeks due to a lack of funds. Given the trench political warfare that characterized this session of Congress, it would be a galactic miracle if they agree on an omnibus-spending bill that provides funding for another full year. Aside from that divine intervention, the much more likely scenario in this lame duck session is that the House and Senate step back from the cliff's edge and hash out another Continuing Resolution to keep the government briefly financed past December 11th. With that feeble accomplishment, members of Congress effectively punted the job of crafting an annual budget to the Biden Administration. At this moment, however, there's not even a CR in the works so the government is edging closer to that rocky bluff.

The second cliff is the timing and substance of another emergency pandemic stimulus package. Let me get right to the point here. Congress is holding the US economic recovery hostage as members endlessly quarrel how to support businesses and households still devastated by an exogenous shock unlike anything seen in modern history.

You can't miss the irony in these talks. All sides recognize the *urgency* to get a stimulus past...but have for months battled how much *urgent* funding is needed! As the dawdling continues though, the economy is close to losing consciousness right at this second cliff's edge.

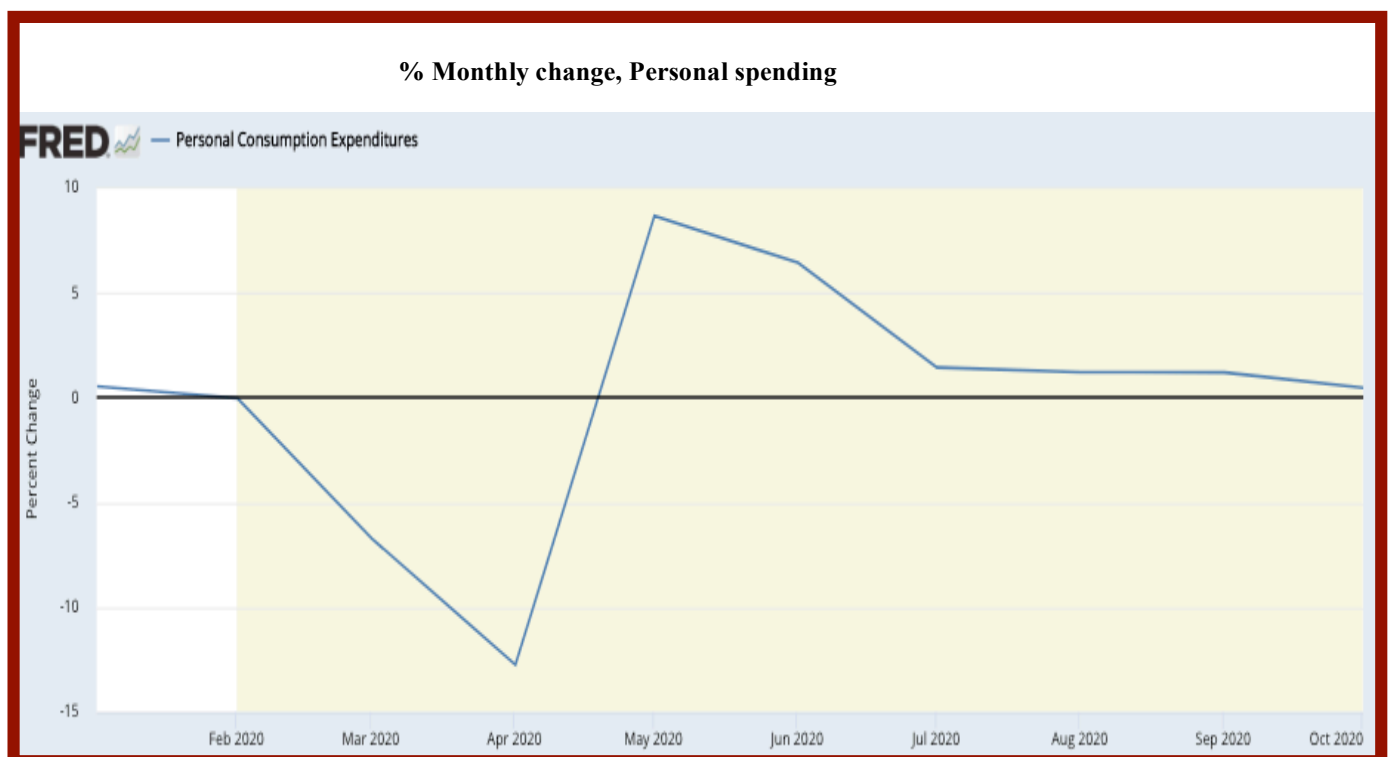
Consider the latest developments that warn of an economy that's light-headed:

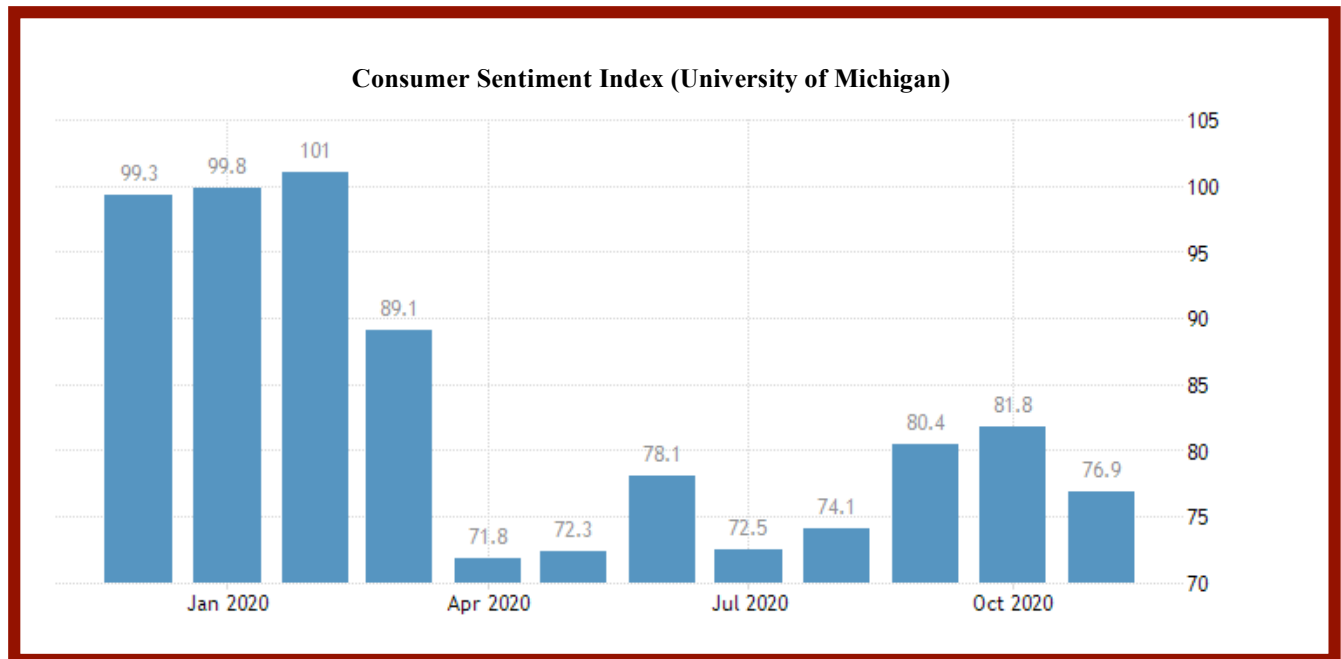
1. When the CARES Act was passed last March, the country had fewer than 18,000 new Covid-19 cases a day. Today, new cases have been averaging a daily rate of 100,000, with hospitals running out of ICU capacity and beds. Several cities are re-ordering businesses to shutdown and even mandating home confinement.

2. The scarring across the business landscape is producing more casualties. It's not just mom and pop retail stores and restaurants that are forced to permanently shut their doors. Of the country's 3,000 largest publicly-traded companies, nearly 20% are now classified as "zombies," according to a recent study from Bloomberg. By "zombie" I mean this pandemic has so pulverized these firms, they don't even make enough money to cover interest expenses. That hardly bodes well for their employees. Alas, new applications for unemployment benefits jumped for the second week in a row, the first time we had two consecutive increases since last July.

Want more proof the economy is losing its footing?

- Two major surveys on consumer moods (the Conference Board and University of Michigan) show confidence over the economic outlook has soured.
- Personal spending in October inched up just 0.5%, the smallest gain since last April when the economy was in a deep recession.
- November's Chicago PMI index dropped to a 3-month low. New orders fell to its lowest since last May.
- Pending home sales, which tabulates the number of contracts signed to purchase existing home sales, fell in October for the second month in a row.
- US manufacturing activity --- the one sector in the economy that has been resilient --- is now showing signs of tottering. The ISM Manufacturing index declined last month, with new orders sliding for the first time since April. As new orders fade, there is less need for workers and so manufacturing employment contracted as well last month in this report.





So let's review. The number of Covid-19 cases has risen to record levels, an increasing number of small, medium and large business are failing, manufacturing activity is winding down, more people are applying for jobless benefits and consumer confidence has been floundering. Yet the GOP is holding firm to the view that all the economy warrants right now is a stimulus package that amounts to a small fraction of the \$2.2 trillion CARES Act.

And as if things weren't difficult enough, many Americans are now confronting their own financial cliff. For reasons that defy logic (but then again what's new?), the Administration has decided to terminate the moratorium on home evictions at the end of the year. Cashed-strapped Americans, who through no fault of their own, now face the prospect of being thrown into the streets after December. To make this holiday season even more cheerless, the White House decided that the suspension of payments on federal student loans will also end after December 31st, along with the federally-mandated Covid-19 paid sick leave. Merry Christmas!

It is true the CARES Act legislated these programs to sunset at the end of 2020, but there's nothing stopping the White House and Congress from extending these provisions into 2021.

The signals are clear and bright: The economy urgently needs another major financial vaccine just as much as it needs a Covid-19 vaccine.

Yet the Congressional testimony yesterday by Treasury Secretary Steve Mnuchin and Federal Reserve Chairman Jerome Powell reveal conflicting outlooks on the economy. Mnuchin points to economic data that suggests the economy is actually on the mend and that this justifies ending those programs. Nor is there any reason, he says, for the Federal Reserve to possess the \$455 billion in funds the Treasury transferred to backstop several Fed lending facilities.

GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
US	2.6	1.6	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-2.8	2.9	4.2
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-8.8	3.5	2.5
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.5	-10.3	4.6	3.9
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	2.2	0.3	0.7	-5.2	2.4	3.2
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-5.8	5.4	3.4
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.8	-8.8	9.9	6.4
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	2.1	7.4	6.2
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-6.0	2.9	2.7
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-9.6	3.3	2.8
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-3.9	3.5	3.8
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.2	-4.9	2.9	3.3
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.9	-3.8	4.7	4.2

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