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ECONOMIC TALKING POINTS

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July 13, 2020

We're In A Recession Now. But What Can We Expect In 2021 And 2022?

The US economy succumbed to the coronavirus this year. We're now deep in recession territory, and when all the numbers finally get tallied for 2020, the economy will end up being 5% to 10% smaller in size than in 2019.

But what of 2021 and 2022?

Will there be a meaningful recovery the two next years, or has the fallout from this pandemic caused so much structural damage that its shadow will hover over the economy those years as well? The answer depends what happens next in three critical areas.

(1) When will we get control over Covid-19? Specifically, how soon will there be a widely available effective vaccine so the coronavirus no longer poses a threat to public health?

(2) What additional rescue programs can we expect from Washington? The Pandemic Unemployment Assistance program, which provides the additional $600 a week in jobless benefits, expires in two weeks. Registration for the Paycheck Protection Program for cash strapped businesses ends in three weeks. But with Covid-19 infection rates and hospitalizations surging again, pressure is building on Congress to pass yet another round of fiscal support for households and companies.

(3) The final factor is based on the outcome of Presidential election. Donald Trump and Joe Biden have radically different personalities and policies for the country. Whoever wins the White House will also influence the course of the economy.

So let's examine each of these factors in greater detail.

(1) What is the path of Covid-19.

Three scenarios are presented on how the coronavirus could play out.

Scenario 1:
An effective vaccine becomes available to the public no sooner than the first half of 2021. As a result, high rates of inflection persist well into the fall of 2020. More cities and states are forced to order a modified lockdown. Complicating matters is the simultaneous increase in influenza cases this winter, which can display symptoms similar to Covid-19.

Scenario 2:
The public has access to a vaccine by the end of 2021. Now the rate of inflections and hospitalizations remain high through most of 2021. Business failures accelerate and more workers on furlough, or on temporary layoffs, now find themselves permanently out of a job. Overall demand in the economy remains is severely depressed.

Scenario 3.
The goal of finding a successful and long lasting vaccine proves even more challenging. In this hypothetical, treatment for Covid-19 gets approved in the first half of 2022 and becomes widely available by the fall of 2022. The delay will likely bulldoze the nation into another recession in 2021 and 2022. It's an ugly outlook but not unrealistic. The fastest time it took to develop a vaccine for a specific virus was four years, and that was for the mumps. Covid-19 has proven to be a far more enigmatic disease given its high contagiousness, asymptomatic carriers, fatality rates and evidence the current strain has the ability to mutate.

(Of course, there is an even grimmer scenario where no treatment is found. After all, some viruses are just "unvaccineable." For example, there is no vaccine for H.I.V., which causes AIDS. There are only therapeutic drugs that help delay its onset or check its symptoms.)

Our take? Given the global urgency and unprecedented money and resources being thrown to combat the coronavirus, we have chosen to incorporate Scenario 1 into our forecast model.

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(2) What Might the Next Government Spending Package Look Like?

There are deep divisions in Congress on what a fifth rescue package should contain. The ambitious $3 trillion HEROES Act passed by the House last May has little support in the Senate. Nevertheless, given were in the final months of an election year, Congress will likely pass another ambitious package when it returns from the two week break on July 20th.

But before we go further, it should be clear that the timeline for an economic recovery will not be determined by how generous this next fiscal stimulus plan becomes. That timeline will be dictated by the path of the virus. It's a microorganism that is calling the shots. What Congress can do, however, is provide an additional lifeline to keep American companies and households whole during this crisis.

We are in a race against time. The longer the coronavirus debilitates the economy, the deeper the scars. More companies are at risk of failing, leaving yet more workers out of a job.

So what can we reasonably expect in the next package?

For Households:

- A second round of stimulus checks with a focus on those unemployed that were making $40,000 a year less.

- An extension of the Pandemic Unemployment Assistance program, but in a more restricted form. Rather than a blanket $600/ week, we believe it will in the range of $250 to $450 a week for the rest of this year, with the precise amount linked to changes in the unemployment rate within each state.

For Businesses:

In addition to the ongoing lending facilities established by the Federal Reserve in conjunction with the Treasury, the new bill will provide more funding for the Paycheck Protection Program. Congress may require companies to demonstrate they have suffered substantial revenue losses to be eligible for this next round in PPP loans that convert to grants.

For State and Local Municipalities:

The coronavirus has decimated state and local coffers. Since 49 out of 50 states are legally required to maintain a balanced budget, many will now face the prospect of slashing outlays for public education, public colleges, government payrolls and even public safety services (police and fire). Raising state taxes and fees in this weak economic environment would only make matters worse for local businesses and residents. So we expect the next bill will provide financial assistance to states and local municipalities.

Infrastructure:

There is widespread support in Congress for a massive shovel ready public works program. That should help lift employment and stimulate local economies. The process of repairing and modernizing roads, bridges and tunnels has been neglected far too long. These investments will dramatically improve the efficiency with which to move people and goods around the country.

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(3) How will the next occupant in the White House influence economic growth?

To answer that question we make a general assumption that whoever wins the Presidency, their political party will also score a majority in both houses of Congress.

We begin by looking at the latest poll results taken by organizations known for their statistical modeling and impartiality. Based on the preponderance of these surveys, we assume (as of this writing) that Joe Biden will be victorious in November.

Economic growth in 2021 and 2022 under a Biden Presidency:

Our expectation is that the economy will experience a fairly modest recovery in both years, with GDP growth of 2.7% in 2021 and 3.8% in 2020. We list the following reasons:

- Consumers and businesses will want to assess the damage Covid-19 has done to the economic landscape before rushing out to spend and invest. This pandemic will probably cast its shadow over the economy long after a vaccine is found.

- A Biden Administration will partially roll back the 2017 Tax Act. The presumptive Democratic nominee has already said he would raise the corporate tax rate to 28% from its current level of 21%. Additional tax increases are planned for high income individuals, while low and middle income families will see their tax liabilities decline.

- Biden is expected to re-appoint Jerome Powell as chair of the Federal Reserve when his term to head the central bank ends in 2022.

- Biden will also pursue a less aggressive trade policy than Trump. Instead of going up against China unilaterally as the US has done the last three years, Biden will form a coalition of other nations that want to pressure China to behave responsibility on trade, protections on intellectual property, its relationship with Hong Kong and illegal activities in the South China Sea. The premise is that China would have less leverage in its negotiations if it had to confront a well-coordinated multinational group.

- The US will also rejoin a number of international organizations, like the Paris Climate Accord, WHO and re-engage with NATO.

- With less uncertainty over domestic and foreign policies in a Biden presidency, we believe the stage is set for business investments to recover late in 2021 and into 2022.

Economic growth in 2021 and 2022 under a Trump Presidency:

If President Trump wins a second term, he will no longer be constrained by another election or by domestic political pressures. His main preoccupation the next four years would be to forge his legacy. Topping that list would be to bring the economy and employment back to levels we experienced the first three years of his term.

- We can expect to see more tax cuts for low and middle income groups, such as a reduction in the payroll tax.

- Trump will also seek to address the ballooning budget deficit and our expectation is that with the GOP in control of Congress, they will begin to target entitlements for substantial cuts.

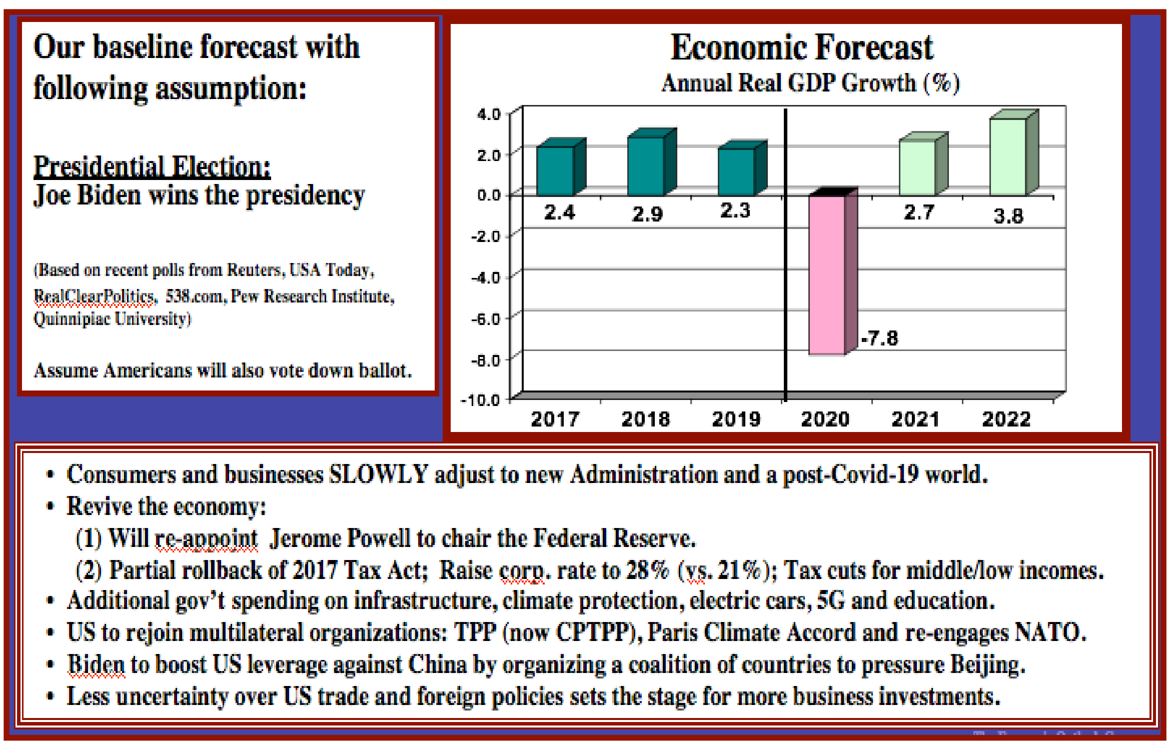
- Trump is unlikely to re-appoint Jerome Powell when his term is up, preferring instead to nominate someone who is more willing to consult with the White House in setting monetary policy and more willing to consider negative short term rates. Financial markets, however, may react negatively at the prospect of a Federal Reserve that is willing to weaken its independence.

• The President is certain to take a much tougher stance on US trade policy in his second term, not just against China but also with Europe and other nations. New tariffs may be imposed, along with other barriers to trade. These actions would again disrupt global supply chains.

• Geopolitical tensions are expected to worsen between the US and NATO, Iran, Venezuela and China, especially its illegal annexation of the South China Sea.

• Faced with more years of uncertain trade policies and disruptions to global supply chains, we suspect that US companies will be reluctant to significantly ramp up capital expenditures.

Given this outlook, our forecast shows economic growth under a Trump presidency to be slower than in a Biden administration, with GDP increasing by 2.3% in 2021 and 2.8% in 2022.



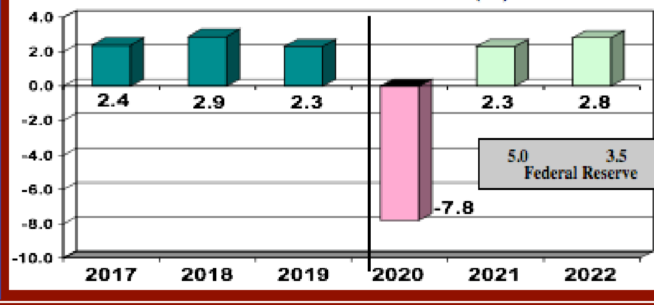
Alternate Scenario

Presidential Election:

Donald Trump wins a second term

Economic Forecast

Annual Real GDP Growth (%)



- President Trump will focus on forging his legacy on the economy & trade.
- Revive the US economy:
  (1) Trump unlikely to re-appoint Jerome Powell as Fed chair in 2022. Financial markets react negatively.
  (2) More tax cuts likely (lower payroll and tax credits for companies that domicile plants in the US.)
  (3) Reduces spending on entitlement programs to address exploding budget deficits.
- Trade tensions heat up. Takes tougher stance with China, Europe and other nations. More trade barriers.
  Result: Faced with more uncertain trade policies, businesses limit CAP EX and reroute supply chains.
- Geopolitical tensions worsen with NATO, Iran, Venezuela and in the South China Sea.

United States

	I 2019	II 2019	III 2019	IV 2019	I 2020	II 2020	III 2020	IV 2020	I 2021	II 2021	III 2021	IV 2021	I 2022	II 2022	III 2022	IV 2022
Real Gross Domestic Product (GDP):																
%	3.1	2.0	2.1	2.1	-5.0	-28.5	2.1	3.8	2.2	2.8	2.5	3.1	2.8	4.5	4.0	3.7
Personal Consumption Expenditures:																
PCE %	1.1	4.6	3.2	1.8	-6.8	-24.7	2.4	4.1	2.3	2.5	2.7	3.3	2.4	5.1	4.8	3.7
Inflation, end of period, year-over-year:																
CPI %	1.9	1.6	1.7	2.3	1.5	-4.3	-0.6	1.0	1.3	1.8	1.8	2.0	2.1	2.5	2.3	2.2
Unemployment Rate (end of period):																
%	3.8	3.7	3.5	3.5	3.8	13.0	14.0	10.9	10.6	9.5	9.1	8.0	7.5	6.9	6.2	6.0
Non-farm Payrolls, monthly avg. thousand:																
	174	152	188	210	-142	-4,429	-250	280	780	765	550	1,100	650	320	650	850
Treasury 10-yr Note Yield % (end of period):																
	2.42	2.00	1.65	1.88	0.63	0.65	0.45	0.50	0.75	1.00	1.15	1.20	1.20	1.30	1.38	1.40
Federal funds rate % (end of period):																
	2.38	2.38	1.88	1.63	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.63	1.13

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	2.9	1.6	2.4	2.9	2.3	-6.9	2.7	3.8
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	-10.9	3.8	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
Canda	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-7.6	4.1	3.4
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.2	-4.4	5.9	6.4
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	1.1	7.2	6.2
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-6.6	1.9	2.7
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-9.1	1.8	2.8
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-6.9	4.4	3.8
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.3	-7.5	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	-4.7	3.3	4.2