

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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The Urgency For Another Stimulus Package

With Congress back from recess, lawmakers now must prioritize crafting the next pandemic rescue package. Here time is of the essence. The economy is hurting and the clock is ticking; Congress is scheduled to take off again at the end of this month for its August recess.

Both the Pandemic Unemployment Assistance (PUA) and the Paycheck Protection Program (PPP) are about to sunset. Yet a treatment for the pandemic is, at best, 6 to 12 months away. That means one thing: The economy needs a financial vaccine that must last at least until there is a vaccine for Covid-19. Anything short of that timeline would risk long-term structural damage to the country.

Some in Washington may point to improving data recently as a sign the economy is already on the mend and that therefore Congress can pass a far less ambitious stimulus program. But that would be a grave mistake.

We have been warning clients that the recent bounce in payrolls and retail sales was not especially meaningful because it's not part of a new recovery cycle. Some states and businesses began to reopen (many prematurely) and employers started recalling workers in an effort to resume or boost operations. And, yes, it is also true that after the historic collapse in consumption during the first lockdown phase in March and April, there was a build in pent-up demand that led consumers to go out and shop, which they did the last two months. Those one-time stimulus checks and enhanced \$600/ week unemployment benefits certainly helped fuel that spending.

But we have to guard ourselves against any false sense of security. It's important to differentiate between a temporary bounce and a sustained recovery.

Our take is it's the former! The human toll from this pandemic has surged again, both in infections and hospitalizations. Even death rates have picked up. States are thus imposing new restrictions, even ordering the shutdown of some businesses. Equally concerning is how the up tick in Covid cases and its implications for the economy prompted a deluge of major companies to announce another round of layoffs (including United, Delta, Wells Fargo, T-Mobile, AT&T, Macy's, Nike, Boeing, Marriott, Hyatt, Hertz, HSBC).

So all eyes are now on Congress and how they are going to safeguard the nation from Covid's economic fallout. The last thing you want to see at this juncture is a mismatch in the duration between what is needed to protect the economy and the timeline of an out of control pandemic. Getting this sequence right is therefore paramount.

There is one other issue that should motivate Congress to act. For the past few months, analysts have run through the gamut of alphabet letters to best illustrate how the economy might perform the rest of this year and beyond. Those descriptions range from a V-shape recovery, to one that appears more like a U, or a W (signaling a double dip recession). But perhaps the most worrisome is that of a K-shaped recovery. A "K" shape represents a highly unequal recovery where the economic divide between high and low income groups becomes wider than ever. Any delay in the support for households and businesses would risk codifying this chasm and condemn the nation to slow and unstable growth ---- even longer after a vaccine is found.

Given the pressure to act quickly, here are the broad outlines of the stimulus package we foresee out of Washington.

1. **Second round of stimulus checks to Americans:** Another stimulus check is in the works but there are still countless proposals under consideration. Our expectation is that there will be another one-time disbursement in the range of \$1,000 to \$4,000 per person, with the higher amount going to 40% of those households who were earning less than \$40,000 but lost their jobs.
2. **Pandemic Unemployment Assistance:** The PUA program will be extended for at least the rest of the year. But rather than a blanket \$600/ week, we believe it will in the range of \$250 to \$450 a week, with the precise amount linked to the unemployment rate within each state. More than 14 million Americans currently receive PUA, though a total of 32 million now depend on unemployment assistance of some kind.
3. **Paycheck Protection Program:** While the PPP formally ends August 8th, it will also be extended, especially since there is a residual \$130 billion that has not been disbursed. 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.
4. **For State and Local Municipalities:** The coronavirus has drained state and local coffers to the point where they have had to cut payrolls, drastically reduce subsidies for education and even slash essential services. Florida governor Ron DeSantis, for example, had to terminate jobs in the state's Department of Economic Opportunity, which is the office that is actually trying to deliver unemployment relief to Floridians! We expect the bill out of Congress will provide \$150 billion to \$250 billion in aid to states and municipalities.

5. Payroll tax cuts: This is being pushed hard by President Trump and his chief economic advisor, Larry Kudlow. In fact, Trump has threatened to veto any stimulus bill that fails to include a payroll tax cut. Most Democrats and many Republicans are opposed to the idea because the main beneficiaries will be those who already have jobs and get a paycheck. It will do little for the millions suddenly out of work because of the pandemic. We expect the President will back away from his threat and ultimately sign the next pandemic rescue package because not doing so would risk further damaging the economy, a risk he is unlikely to take as we get closer to the November elections.

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	0.6	-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	
Canada	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	

