



Forum News

Economist Bernard Baumohl ‘Cautiously Hopeful,’ but Economy May Need ‘Financial Vaccine’ if Pandemic Continues

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There is no shortage of questions swirling around the current and future state of the economy as the country continues to battle the COVID-19 pandemic. Bernard Baumohl, chief global economist at The Economic Outlook Group, will discuss the economic impact of this catastrophic chapter in history at Catalyst Corporate’s virtual Economic & Payments Forum this fall.

“Right now, we’re just hoping that the worst is over and the economy is starting to come back, but it’s important to remember that an economic rebound is not the same as a recovery,” Baumohl said. “There is so much uncertainty around the path of the economy, as it’s the first time in history we’ve engineered an economic recession of this kind and we still have no control over the pandemic,” he added.

According to Baumohl, no similarities exist between our current economic climate and the financial crisis of 2008. “This is unlike anything we’ve experienced in the past.”

How does the United States’ response compare to that of other global economies?

“Ninety percent of world economies will be in a recession this year. In comparison, the U.S. recession is likely to be a little less severe,” said Baumohl. “To what degree is still uncertain.”

“The service industry – like hotels, restaurants, bars and airlines – has taken the largest hit. In the past, it was the manufacturing sector, but the pandemic has impacted various sectors of the U.S. economy in new ways.”

More specifically, how has the financial services sector fared amidst the economic turmoil?

According to Baumohl, the financial services industry has remained somewhat resilient largely because of lessons learned after the 2008 recession.

“Some definite positives have emerged for financial institutions. We’re seeing a strong housing market and auto loans have even picked up. Financial institutions should also start to see the benefits of a gradually positive slope in the yield curve over the next 12 months,” said Baumohl.

But, there are also some concerns regarding the quality of loans on financial institutions’ books, he said. Luckily, Baumohl noted a variety of strategies are available for addressing loan quality.

With current interest rates resting at historic lows, should credit unions be aware of other long-term implications for the economy?

Baumohl complimented the Federal Reserve’s handling of the economy during the pandemic: “The Fed is doing a great job of lowering the cost of capital and ensuring the financial market has plenty of liquidity. They’ve taken extraordinary steps – actions they’ve never done before – to provide the funding necessary to keep the economy going.”

Baumohl anticipates that the Federal Reserve will keep short-term rates “near zero” for at least the next two years. “As far as the 10-year yield is concerned – an important benchmark for the cost of capital – we anticipate it will creep higher, reaching to 1.5 percent by the end of 2022,” he said.

As for the timeline to economic recovery, Baumohl noted the absolute necessity of another emergency spending package. “We need a *financial* vaccine while we wait for the *coronavirus* vaccine.”

Baumohl also predicted the upcoming presidential election will weigh heavily on the recovery timeline. The two possible outcomes, he said, each come with their own set of economic projections. “This could be one of the most contested presidential elections in U.S. history,” he added.

When asked the top three economic takeaways he’d share with credit unions regarding this unprecedented time in history, Baumohl responded with:

1. Be prepared. There *will* be permanent changes to the economic and business landscape; *that is inevitable*.
2. We must be cautiously hopeful, as the future state of the economy rests strongly on the path of the virus – and it is just as unpredictable.
3. This life-altering event has put a few positives into perspective. “We’ve done a lot right since the 2008 recession to ensure the financial services industry remains strong even in the most dire situations.”

For more on this topic, don’t miss Baumohl’s presentation at the Economic & Payments Forum on Monday, Oct. 5, 2020. Registration for this free event is available under [Learning Center/Conferences](#).