



Economist discusses ‘economic Ice Age’ and post COVID-19 outlook in ALA webinar

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By Andrea Lillo // Managing Editor • May 8, 2020

NEW YORK—When the economy will bounce back, how the election will affect the country and other topics were discussed by an economist during a recent webinar from the American Lighting Association.

“We are in a pivotal moment,” said **Bernard Baumohl, chief global economist, The Economic Outlook Group**, and a speaker for the 2020 ALA conference this September. “We’ve entered into an economic deep freeze, a sort of economic Ice Age for the time being. Everything in the economy now is in play; that’s made forecasting incredibly challenging,” but decisions still have to be made on a daily basis.

The economy will begin to recover once the virus no longer poses a major health threat, whether it’s reduced or eliminated, he said. “It’s not going to be monetary or fiscal policies that determine this, it’s going to be the virus, and how quickly we come up with a vaccine and therapeutic drugs.”

It will also depend on when viral infections and mortality rates peak—ranging from an optimistic late spring/summer scenario to a dire one where they peak in the first half of 2021. The Economic Outlook Group calculated its forecast based on a middle option, which shows that the virus will peak late summer or fall of this year, and with antiviral drugs and vaccines becoming available by year end; this scenario also shows that the U.S. economy could show growth of 2.8% for the second half of the year, while the GDP for 2020 would be -5.0%.

The second determining factor on the economy will be on who wins the presidential election later this year, former Vice President Joe Biden or President Donald Trump. Baumohl added that whoever wins will presumably have “long coat tails,” and that political party will win down ballot, including the majority in the House and Senate.

Based “purely on economic analysis” as The Economic Outlook Group is nonpartisan, Baumohl said it predicts Biden will win the election, based on current polls from Reuters, RealClearPolitics and 538.com, among others. With Biden as president, the firm estimates annual real GDP growth of 2.7% in 2021 and 3.8% in 2022. He noted that other forecasters predict bigger jumps in GDP growth, but he doesn’t agree, as people will be careful post-COVID and consumers will want to make sure their jobs are secure, among other issues.

In addition, Baumohl expects a Biden Administration to invest more in education, climate protection and infrastructure, and partially rollback the 2017 Tax Act, resulting in more tax cuts for middle and low income households. There will also be “a lot more clarity on trade and climate policies,” including the U.S. rejoining the Paris Climate Accord. In addition, the “global economy will pick up, too, because there’s going to be less uncertainty over trade [and] tariffs.”

Baumohl also detailed what could happen if Trump won a second term. If this is the case, he forecasts annual real GDP growth of 2.3% for 2021 and 2.8% for 2022. In addition, as Trump will not be seeking reelection, he will not be “constrained by political pressures” and instead will be “trying to forge his legacy,” by both reviving the U.S. economy and continuing “to take a tough stance on China.” New tariffs and sanctions on China could happen, and they could include Europe and other countries as well, he said, and that could have “a suppressing effect on business spending.” Baumohl said Trump is unlikely to reappoint Jerome Powell as Fed chair in 2022, and that may upset the financial markets. In addition, geopolitical tensions will worsen with Iran, North Korea, Venezuela and in the South China Sea, he said.

The post COVID-19 world economy will see some major shifts, Baumohl said. For example, many companies will look at their supply chains to see if they can become less dependent on production in China. However, Baumohl said, many other countries don’t have the skilled workers, the equipment and perhaps the infrastructure that China has, so that option is not always going to work, particularly if the U.S. later imposes tariffs on those other countries.

Pre-COVID-19, there had already been a movement away from producing in China to other countries, he said. Last year, exports from China to the U.S. went down 18%, while it was up 35% for Vietnam, 18% for Taiwan and 6% for India, citing numbers from the U.S. Commerce Department.

Baumohl added that this may inspire a shift to onshoring, as shipping and Chinese labor costs have increased, offsetting some of benefits of producing goods there, though it remains to be seen as to if consumers will pay more for U.S.-made product.

Other post-COVID-19 changes will include the failure of many small and mid-sized businesses; corporate travel policies, including the slashing of non-essential travel; changes in human psychology, including avoiding handshakes and making payments digitally rather than with paper money, and others.

Baumohl recommends companies give themselves rigorous stress tests to discover their vulnerabilities, so they can plan what they should do in case a

disaster such as a systematic power failure or something else occurs. Apple, for example, is 100% reliant on renewable energy, so if a power failure were to strike, all of its U.S. offices, stores and manufacturing facilities would also still be up and running, he said.

In addition, “every company—no matter what business they are in—is a tech firm,” making it essential to ensure it is cyber secure. He even suggested contacting a reputable cyber security firm to ask it to hack into the system to see where the vulnerabilities are. He also suggested that companies have a geopolitical team in place that understands the politics and risks in the areas where it does business globally.

“Exogenous shocks will become more common—and more consequential,” Baumohl said.

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