

2020-2021 ECONOMIC FORECAST
Government & Regulations

Economist: 2021 recession likely, presidential election will determine rate of economic growth

By Corina Vanek – Reporter, Phoenix Business Journal
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The national economy is slowing down and could enter into a recession next year due to the "disorienting, distracting and dizzying" events of 2020, the chief global economist for **The Economic Outlook Group** said on Thursday.

Even if there is an effective vaccine for Covid-19 by the middle of 2021, if the United States does not pass another large stimulus bill, the probability of a recession in 2021 is 50%, **Bernard Baumohl** said during his keynote address, which was given virtually at the Phoenix Business Journal's 2021 Economic Forecast, sponsored by the Salt River Project.

A recession is almost certain — 90% likely — if there is no effective vaccine until late 2021 or early 2022 and there is no comprehensive stimulus bill, he said.

"We clearly need to have a financial vaccine until there is an effective Covid vaccine," he said.

Baumohl said there is no expectation of a major stimulus bill passing this year, but one is likely to pass early next year.

Consumers — even those who do have jobs — are fearful of losing their jobs and less likely to spend money, he said. This will lead to less holiday spending and overall lower consumer spending. Additionally,

nearly 27 million Americans are receiving some form of unemployment assistance, an exponential jump from 1.4 million a year ago. Mortgage delinquency is near a 10-year high.

The U.S. GDP is expected to shrink 5% in 2020, according to **Baumohl's** forecast. GDP growth in the next two years will hinge heavily on the winner of the U.S. presidential election.

White House scenarios

Most forecasts predict Joe Biden will win the election, and **Baumohl's** nonpartisan economic outlook paints a rosier picture for economic growth if Biden is in fact elected, assuming the Democrats take control of both the Senate and the House of Representatives.

In that scenario, **Baumohl** forecasted 3.4% GDP growth in 2021 and 4.3% growth in 2022. Even if there is another modified economic shutdown, **Baumohl** said he expects Congress will pass a “very generous” stimulus bill in the first quarter. If elected, Biden is likely to reappoint Jerome Powell as chair of the Federal Reserve, which **Baumohl** said would bring consistency to monetary policy.

Biden's presidency will also present fewer disruptions in trade flows and increase spending on infrastructure, climate protection, education and healthcare, **Baumohl** said.

In the other scenario, if Donald Trump were to win a second term and Republicans maintained control of the Senate and took control of the House of Representatives, **Baumohl** forecasted slower economic growth. In 2021, he forecasts the GDP will grow 2.2%, and in 2022, a 2.6% gain.

In a second term, **Baumohl** said Trump would no longer be “constrained” by having to win another term and would move forward with more tax cuts, likely payroll tax cuts. **Baumohl** said Trump would also likely focus on reducing the national debt, but without a reduction in spending, there would need to be reform of entitlements, including Social Security, Medicare and Medicaid.

'Tale of two economies'

Lasting changes from the pandemic are going to vary widely between income levels, as those who were most affected by job loss were lower earners.

“It's the tale of two economies,” **Baumohl** said. “The disparity in income growth between those who have been able to navigate the

pandemic versus those who at best have been able to hang on will widen.”

In a panel discussion following **Baumohl’s** forecast, business attraction, small business and education leaders discussed the effects of the pandemic on Arizona.

At the beginning of the pandemic, about a third of the companies working with the Arizona Commerce Authority to expand to Arizona or move to Arizona put their plans on hold, ACA President and CEO Sandra Watson said.

However, most of those have come back and about 300 companies are still working with the group to grow in the state. About half of the projects in the pipeline are manufacturing-related, she said, and about 10% are corporate headquarters.

Kimber Lanning, founder of Local First Arizona, said about a quarter of small businesses in the state that lease space are behind on their rent, and 70% of owners have depleted their personal savings to deal with the effects of the pandemic.

Christine Thompson, president and CEO of Expect More Arizona, said the pandemic, and remote schooling, has emphasized the digital divide, leaving some families without the skills and equipment needed for online education. That could impede the state’s goal of 60% of adults attaining postsecondary education or certification by 2030, she said.

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