



# Trump Administration Acknowledging Economic Catastrophe After Months of Optimism

The president and members of his administration are coming to grips with economic and public health realities that they had previously doubted – finally.

By Andrew Soergel, Senior Writer, Economics May 12, 2020

**AFTER REPORTS SURFACED** in late March that Steven Mnuchin had suggested to lawmakers behind closed doors that unemployment would hit 20% if stimulus legislation wasn't passed in short order, the treasury secretary vowed that the administration was "not going to let that happen."

"I didn't in any way say I think we're going to have that. And, let me be clear: If we follow the president's plan, we will not have it," Mnuchin defiantly said during a March 18 appearance on CNBC. "This U.S. economy is going to come roaring back once we conquer this disease."

The comments stand in stark contrast with his more recent projections.

During an appearance last weekend on "Fox News Sunday," Mnuchin cautioned the economic data like the unemployment rate – which soared to 14.7% last month and is expected to climb even higher in May – are "probably going to get worse before they get better."

"My numbers aren't rosy. What I've said is you're going to have a very, very bad second quarter, and then I think you're going to see a bounce back from a low standpoint," Mnuchin said, acknowledging that "we could be" in store for Great Depression-era unemployment of around 25%.

Despite many experts predicting over the course of the past few months that America's coronavirus-fueled economic collapse would be severe, it is only recently that members of President Donald Trump's administration have publicly acknowledged the extent of the catastrophe, revising previously rosy forecasts for infection spread and economic damage.

The administration is now pushing state governors to reopen their economies – suggesting the worst of the outbreak and the economic calamity is in the rearview

mirror and that a quick and full recovery awaits. But just as analysts warned of the impending turmoil in March as the administration downplayed the outbreak's consequences, they are now saying a premature reopening will bring more hardship and that the economy is in for a long road to full recovery.

"Without a vaccine, consumers and businesses may remain cautious, keeping overall economic activity below its pre-COVID-19 levels until 2022," Lewis Alexander, chief U.S. economist at Nomura, wrote in a research note on Tuesday, warning that "an unemployment rate persistently above 10% may weigh on confidence and income growth" down the road.

It is only recently that the severity of the coronavirus-fueled economic downturn has been borne out in official government data, with unemployment reports and economic indicators suggesting the economy is in the throes of its worst crisis in decades. And the inherent lag in the reporting of economic indicators allowed optimists within the Trump administration to for weeks cling to hopes for a modest disruption that experts warned were unlikely.

The same day as Mnuchin's delivered his remarks in March, **Bernard Baumohl, chief global economist at The Economic Outlook Group**, circulated a research note warning of "some truly frightening, even shocking, economic numbers ahead" and suggesting that "the looming question now is whether the coronavirus will push the economy into a vicious downward spiral that goes beyond a two-quarter recession and into the realm of a catastrophic depression."

A policy brief also published on March 18 by David Beckworth, senior research fellow at George Mason University's Mercatus Center, warned that "the coming recession probably will turn out to be one of the sharpest downturns on record." A team of analysts at IHS Markit wrote in a research note that day that the downturn's eventual recovery "will be a U-shape rather than V-shaped cycle, as a sharp reduction in near-term growth is followed by a slow recovery."

Analysts were widely forecasting a level of economic pain that the Trump administration has only recently recognized publicly. Less than a week after his March 18 suggestion that unemployment would never hit 20% as a result of the coronavirus outbreak, Mnuchin described a sharp spike in jobless claims as irrelevant.

"To be honest with you, I just think these numbers right now are not relevant, whether they're bigger or smaller in the short term," he said during a separate appearance on CNBC. "Hopefully these workers will be rehired."

Since mid-March, more than 33 million people – roughly 1 in 5 Americans employed in February – have filed for jobless claims.

CNN's Jake Tapper pressed White House economic adviser Larry Kudlow over a similar theme last week, presenting Kudlow with his own February quote that the U.S. had "contained" the coronavirus in a "pretty close to air tight" manner. On

Tuesday, the U.S. passed 80,000 confirmed deaths from the outbreak. More than 1.3 million people are confirmed to have been infected domestically.

"For the umpteenth time, I will say, my quote then was based on the actual facts, which at the time there were only 40 or 50 cases, and it was contained," Kudlow responded. "There was hardly any cases. Yes, some doctors were more fearful. Other doctors had many different things to say. I don't want to get into this game – who said what when."

Trump and his allies have drawn criticism from those who believe they did not take the virus seriously enough at the outset, despite health officials warning of the disease's potential consequences and economists widely forecasting economic peril. Only this week, staffers around the White House were asked to wear masks despite the Centers for Disease Control and Prevention recommending such action to the American public more than a month ago.

Trump often compared the virus to a seasonal flu in the early days of the outbreak and echoed Kudlow's February assessment that the disease had been largely contained. Through late April, Trump suggested no more than 60,000 Americans would die over the course of the entire pandemic, based on a popular forecasting model from the University of Washington's Institute for Health Metrics and Evaluation. Trump's public projection later jumped to 70,000 and most recently to around 100,000. The IHME now predicts more than 147,000 Americans could die from the coronavirus by the beginning of August

Kudlow, Mnuchin and Trump have all issued public remarks in recent days clinging to the notion that an economic recovery will be quick and robust and that 2021 will be a banner year for the economy.

Many experts, however, disagree with the administration's prediction of a V-shaped recovery, even if all state economies immediately relaxed social distancing guidelines. Consumer confidence and spending have plummeted as millions find themselves out of work and reliant on government unemployment assistance that in some areas is still difficult to acquire.

Even a recent Congressional Budget Office analysis projects the national unemployment rate will only drop to around 9.5% by the end of 2021 and remain in the double digits for much of the next two years.

"The recovery will be U-shaped, with GDP not surpassing its prior peak until mid-2022," Joel Prakken, chief U.S. economist at IHS Markit, said in a statement on Monday.

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