THE ECONOMIC OUTLOOK GROUP

475 Wall Street
PRINCETON, NEW JERSEY 08540 Tel: 609 - 529 - 1300
www.economicoutlookgroup.com

ECONOMIC TALKING POINTS

Bernard Baumohl
Chief Global Economist

March 18, 2020

A Trillion Dollar Microbe

A global recession is a near certainty this year. About the best we can hope for is that the stimulus being unleashed around the world will limit the damage to a brief and shallow global downturn. The real challenge for policymakers now is to keep Covid-19 from pushing the US and international economy into a longer-lasting, more destructive depression.

In the last few weeks, virtually every central bank on the planet has been reaching deep into their tool kits to do what they can to stave off an economic collapse. At the same time, governments everywhere are green lighting stimulus programs to boost demand and prevent a surge in personal and business bankruptcies.

The Trump Administration is feverishly pushing Congress to pass a variety of rescue plans to salvage the economy with a price tag of at least $1.2 trillion. It's an emergency package that includes $550 billion in direct payments or tax cuts, $200 billion to $300 billion in small business assistance, $50 billion to $100 billion in relief for airlines, and many more proposals. The light speed pace with which this gargantuan bill is being shoveled through Congress tells you how alarmed policymakers are by the potential social and economic wreckage this microorganism can cause.

Businesses are already scaling back operations and furloughing workers. For corporate managers, the priority now is to secure their cash flow. Americans

are being asked to hibernate at home in an effort to avoid spreading the coronavirus. But as they do so, revenues to retailers, manufacturers and service providers will be in free fall. That will lead to more layoffs and another drop in household income.

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?

Unfortunately, there is no historical precedence in the modern era to help us understand how a global pandemic with a virulent pathogen will impact national economies. The painful reality is that to fight this virus, we have no choice but to temporarily sacrifice the economy. There just is no other alternative.

How all this turns out depends on the answer to a single question. Will we be able to contain Covid-19 soon enough so it doesn't cause catastrophic damage to the economy —– or will this new virus, a pathogen to which everyone is susceptible and no one immune, spreads with the kind of virulence as to trigger an economic collapse that permanently alters the US business landscape?

We know that aggressive monetary and fiscal policies can help delay the worst scenario, but for how long? That is the primary unknown that has bedeviled investors in recent weeks. There is no rulebook for such a biological shock. When economic fundamentals are no longer applicable, price discovery becomes impossible.

And here's the real irony. Even in this hi-tech, sophisticated modern economy, it took a tiny inscrutable microbe to seize the world with fear and cause global financial upheaval. We've often boasted about the great economic and technological strides civilization has made over the last 50 years. Yet the world appears to tremble at the kind of damage a microbe can still unleash. Can there be any more humbling experience?

In the meantime, we have to brace ourselves for some truly frightening, even shocking, economic numbers ahead.

We got an early sense of that this morning when the government released February's housing starts and permits. Both new construction and filings for future groundbreaking fell as news of the virus began to make the headlines. But the declines of 1.5% and 5.5%, respectively, were fairly modest since few people felt genuinely threatened by the coronavirus just four weeks ago.

It was in March when Americans were truly jolted out of their sense of security. The exponential jump of those infected by this pathogen and how

terribly unprepared the US initially was combating it startled everyone. The most current data point on how consumers have reacted this month came yesterday from the Johnson Redbook survey. It reported that chain store sales shot up 1.1% over the week ending March 14. Retailers noted the surge in purchases of bottled waters, foods and medications. That rush to pick up emergency supplies has since accelerated.

Looking at the broader picture, we have revised down our GDP forecast for the US in 2020. Q1 will still look fairly respectable after Americans flooded stores to load up on essentials. We're projecting a GDP growth rate of 1.8% in the first three months of the year.

But that will be followed by a precipitous drop in consumers and businesses spending this spring and summer leading a painful 4.5% contraction in the 2Q, and no growth in 3Q.

What happens the final three months of 2020 will depend on whether we have turned the corner in combating Covid-19. Our baseline forecast calls for a modest resumption in consumers and businesses outlays the final three months that would lift growth by 2.6%.

For the year as a whole, however, the economy will show no growth from its 2019 level. We're essentially writing off 2020.

Having said that, the outlook for 2021 looks much brighter, though it's based on the assumption that efforts to control, if not eradicate, Covid-19 succeeds.

We view the state of the economy akin to a coiled spring. It entered 2020 with considerable energy given the strong employment numbers in January and February. It is now being held back by the coronavirus, but will bounce back strongly once the disease fades into history.

Just how much faster growth will pick up in 2021 and 2022 will depend to a large extent on the final details and implementation of the stimulus program --- and the outcome of the presidential election. Once President Trump signs the spending bill, we'll be able to better assess its impact on the economy the next two years.

==============================

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	1.8	-4.5	0.0	2.6	2.6	4.1	2.7	3.1	1.5	2.2	2.0	2.1
Personal Consumption Expenditures:																
PCE %	1.1	4.6	3.2	1.7	3.1	-3.8	0.5	3.4	2.8	4.4	3.2	2.7	1.7	2.9	2.3	2.0
Inflation, end of period, year-over-year:																
CPI %	1.9	1.6	1.7	2.3	2.1	0.5	0.6	1.1	1.9	2.5	2.6	2.4	2.4	2.5	2.3	2.2
Unemployment Rate (end of period):																
%	3.8	3.7	3.5	3.5	3.8	5.5	5.5	4.7	4.6	4.5	4.1	3.9	3.9	3.9	4.0	4.2
Non-farm Payrolls, monthly avg. thousand:																
	174	152	188	210	150	-35	-15	65	115	130	135	140	135	120	110	115
Treasury 10-yr Note Yield % (end of period):																
	2.42	2.00	1.65	1.88	1.00	0.90	1.00	1.55	2.00	2.50	2.55	2.80	2.80	2.95	3.00	3.20
Federal funds rate % (end of period):																
	2.38	2.38	1.88	1.63	1.13	0.13	0.13	0.38	0.88	2.13	2.13	2.13	2.38	2.38	2.38	2.13

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	0.0	3.2	1.9
Eurozone	1.7	1.4	-0.9	-0.3	1.2	1.6	1.7	2.5	1.9	-0.4	1.1	1.4	1.2
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.4	0.2	1.7	1.3
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	1.0	1.9	0.8	0.0	0.9	1.4	0.8
Canada	3.1	3.1	1.7	2.2	2.5	0.9	1.4	3.0	1.9	0.9	2.1	2.3	1.5
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	2.4	5.2	6.1	6.2
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	4.0	5.8	5.6
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.1	1.1	-0.3	1.5	1.8	1.7
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-0.4	1.7	1.2
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	0.0	2.0	2.6	2.3
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.3	0.9	1.8	0.9
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	1.9	3.3	3.2	3.0