

# THE ECONOMIC OUTLOOK GROUP



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## ECONOMIC TALKING POINTS

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### **February's jobs report suggests a post-coronavirus V-shape recovery ahead**

Few expected the 273,000 blowout in new payrolls in February. Equally impressive were the robust upward revisions in December and January. Even average weekly hours worked bumped up to 34.4 last month, the most since last October. There is nothing in the February employment report that hints of an economy coming under stress due to the coronavirus. But that was to be expected. At the time the BLS conducted its survey mid-month, there were only 13 people in the US with confirmed cases of the virus and no deaths. (Today, the numbers are 225 confirmed cases and 14 deaths.)

In fact, what stands out most about the latest employment report is the strong momentum the economy entered 2020, and that should not be dismissed given the age of this expansion and that it is about to come face-to-face with a deadly pathogen.

February's impressive employment numbers is likely to be the last hurrah before the coronavirus begins to impact job creation and economic activity.

We are already sensing that change in employer attitudes. Though much of the information here is anecdotal, the message we hear from clients is fairly consistent. Given the public alarm and deep uncertainty over the severity of the coronavirus, companies are prepared to sharply scale back new hiring, but will make no changes to existing payrolls.

The decision not to commence layoffs makes perfect sense given how difficult it has been in recent years to find qualified workers. Why let good workers go when we're dealing presumably with a temporary shock. The weekly data on claims for unemployment insurance bears this out. New applications remain at historic low levels.

**While next week will be relatively light in terms of economic releases, there are two that warrant close watching. The NFIB report out on Tuesday should tell us more about how small and midsize businesses are beginning to respond to the outbreak of the coronavirus. And on Friday we get the University of Michigan's mid-month barometer on consumer sentiment.**

**We do expect upcoming data to show business conditions deteriorating. No one has much conviction on where the economy is headed. Worse still, there is a sense of panic in some sectors.**

**Investors are abandoning stocks at a pace not seen since the financial crisis. Activity in the equity and fixed income markets are just not rational. Consumers are worried enough to empty store shelves because they are mostly focused on unfavorable possibilities, rather than probabilities. The Federal Reserve certainly shocked everyone with its premature half a point cut, but that step ironically made people only more anxious. This is what an economic pandemic looks like.**

**We are advising everyone to take a deep breath and step back. This is not the end of modern civilization. Our forecast remains that we are headed for a V-shape economic recovery in the second half of the year. Here's why:**

- The US economy is in fundamentally sound shape. Otherwise January and February would not have shown the biggest combined jump in job growth in more than a year! Revisions for December and January alone boosted payrolls by another 85,000. These are not symptomatic of a fragile economy.**
- In addition, the US banking system remains healthy because of the regulatory and legislative changes made to financial institutions since the Great Recession.**
- Oil prices are also plummeting now that Russia chose not to participate in the production cuts that OPEC sought. Lower energy prices along with falling interest rates means consumers will have more discretionary income to spend.**
- The US and international health communities have placed a priority on working jointly and spending billions on containing and eradicating the coronavirus.**
- We expect to see more federal stimulus in the form of targeted tax cuts and government spending to support demand.**
- Finally, this is an exogenous shock and therefore will, as in the past, prove to disrupt economic activity temporarily. We saw this with the swine flu, SARS and Legionnaires disease.**

**There is no doubt some sectors will be hit harder than others, with the biggest pain being felt by airlines, hotels, restaurants and some manufacturers.**

**But we do not see this virus precipitating a two-quarter recession in the US. No disease in the past has been singularly responsible for causing such a downturn. So while we have revised down our GDP growth forecasts in the first half to a 1.2% annual rate, it will bounce back to a 3.2% rate in the second half.**

**In the meantime, brace yourself for some ugly economic reports in the weeks and months ahead. It will not, however, bring the US economy to its knees.**

## 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
<b>Real Gross Domestic Product (GDP):</b>																
%	3.1	2.0	2.1	2.1	1.2	1.0	2.8	3.6	2.4	3.3	2.4	2.5	1.5	2.2	2.0	2.1
<b>Personal Consumption Expenditures:</b>																
PCE %	1.1	4.6	3.2	1.7	1.9	1.1	3.2	4.3	1.8	3.9	3.0	2.7	1.1	2.3	1.5	1.7
<b>Inflation, end of period, year-over-year:</b>																
CPI %	1.9	1.6	1.7	2.3	2.1	2.3	2.5	2.6	2.6	2.5	2.6	2.4	2.4	2.5	2.3	2.2
<b>Unemployment Rate (end of period):</b>																
%	3.8	3.7	3.5	3.5	3.6	3.6	3.7	3.5	3.6	3.7	3.9	3.9	3.9	3.9	4.0	4.2
<b>Non-farm Payrolls, monthly avg. thousand:</b>																
	174	152	188	210	235	115	135	165	180	190	180	140	135	120	110	115
<b>Treasury 10-yr Note Yield % (end of period):</b>																
	2.42	2.00	1.65	1.88	0.90	1.10	1.60	1.90	2.10	2.50	2.55	2.80	3.25	3.55	3.85	4.10
<b>Federal funds rate % (end of period):</b>																
	2.38	2.38	1.88	1.63	1.13	1.13	1.13	1.63	1.63	1.88	2.38	2.38	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	2.1	2.7	1.9
Eurozone	1.7	1.4	-0.9	-0.3	1.2	1.6	1.7	2.5	1.9	0.9	0.8	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	0.5	1.7	1.3
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	1.0	1.9	0.8	0.9	0.7	1.4	0.8
Canada	3.1	3.1	1.7	2.2	2.5	0.9	1.4	3.0	1.9	1.3	0.8	2.3	1.5
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.9	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	5.2	5.8	5.6
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.1	1.1	1.5	1.2	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	0.8	1.7	1.2
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.6	1.2	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	1.5	1.7	0.9
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.8	2.4	3.2	3.0