The US Economic Outlook

FTA Webinar
21 April 2020

Joel Prakken, Chief US Economist
The US economic outlook: forecasting in the time of COVID-19
A forecaster’s migraine headache

- Unprecedented magnitudes, uncertainty, volatility
- Areas of agreement
  > Huge contraction in Q2; less of one in Q1
  > Recovery start: lifting policies of distancing; depends on course of pandemic…and vice-versa
  > Shape of recovery (“U”, “V”, “swoosh”): how much destroyed? The longer pandemic, the more anemic the recovery
- Areas of disagreement
  > Course of pandemic; post-pandemic reticence
  > Catch-up vs make-up, esp in services (2 haircuts…)
- Strength, efficacy of policy response
  > Monetary: Fed is “all in”
  > Fiscal: 3 Acts (so far); big, but messy
- Challenge: keeping forecast up to date
A “consumer–led” contraction (and recovery)

- Government and public health officials are, in essence, dictating consumers to increase saving out of current income
  - And which activities to be cut back on
- Keynes’ “paradox of thrift” … with a vengeance!
- “Multiplier(?)–accelerator” effects
  - Investment (including PCE-durable goods) can show bigger swings than the “consumption” that “leads” the contraction
- Reversal of shock doesn’t mean spending returns to previous level, only that it reverts to the original relationship to income
  - But, in the meantime, income may have fallen
  - Hence, recovery can take longer than the reversal of the shock
- And, it doesn’t mean we’re spending on the same items as before
  - There could be a new distribution of total consumer spending if habits changed during the episode – think ahead!
Social distancing has shut down parts of the economy

**US manufacturing & services headline PMIs**

SA, index

**TSA checkpoint travel numbers**

Percent change from one year ago, daily data

**STR hotel data: revenue per available room**

Percent change from comparable week, 2019

**Seated diners at US restaurants**

Percent change from comparable day, 2019, daily data

**Gross movie receipts**

Percent change from comparable week, 2019

**Initial claims for unemployment insurance**

% of prior month’s labor force

Notes: Seated diners at restaurants on the OpenTable network. Source: OpenTable © 2020 IHS Markit.

Notes: Total traveler throughput. Source: Transportation Security Administration © 2020 IHS Markit.

Notes: Week ending. Source: STR © 2020 IHS Markit.

Notes: Week ending. Source: Box Office Mojo © 2020 IHS Markit.

Notes: Week ending 26 March (6.6 million, 4.0% of labor force) and Week ending 21 March (3.3 million, 2.0% of labor force). Source: Department of Labor, Bureau of Labor Statistics © 2020 IHS Markit.
Projections of COVID-19 deaths (Institute for Health Metrics & Evaluations)

- 2 days since projected peak in daily deaths
- 1,983 COVID-19 deaths projected on April 10, 2020

Widespread vaccine in 18 months?

Social restrictions start being lifted

Spending recovering
Forecast at a glance

**Historic contraction in 2020 Q2**

- Real GDP growth
- Unemployment rate

**Contributions to GDP growth**

- Government
- Net exports
- Inventory investment
- Residential investment
- Non-residential investment
- PCE

**Core inflation to remain below 2% until 2023**

- Unemployment gap (right)
- Inflation expectations (left)
- Core PCE inflation (left)

**Equities decline sharply in 2020 before rebounding**

- S&P 500 index (left)
- Equity risk premium (right)

**Fed keeps funds rate pinned at 0 through 2024, term yields fall in near-term before rising gradually**

- 10-yearTreasury-note
- 2-yearTreasury-note
- Conventional mortgage rate
- Fed funds rate

**Forecast overview**

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP*</td>
<td>2.3</td>
<td>-0.7</td>
<td>10.1</td>
<td>2.2</td>
<td>1.2</td>
<td>1.5</td>
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<td>Pct Final Dom Dem*</td>
<td>2.1</td>
<td>-0.3</td>
<td>10.6</td>
<td>2.0</td>
<td>1.3</td>
<td>1.7</td>
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<tr>
<td>Unemployment Rate**</td>
<td>3.5</td>
<td>10.3</td>
<td>6.0</td>
<td>3.7</td>
<td>3.7</td>
<td>4.1</td>
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<tr>
<td>Core PCE Inflation*</td>
<td>1.6</td>
<td>1.3</td>
<td>1.4</td>
<td>1.8</td>
<td>2.1</td>
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* Q4 to Q4 percent change, ** Q4 average

Note: Prior base forecast values (published 3 March) shown below each line.

Source: IHS Markit © 2020 IHS Markit
V-shaped or U-shaped? It depends...

Real GDP: the shape of things to come?

- **Level:** U-shaped
- **Growth:** V-shaped

Source: IHS Markit

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Sectoral color and observations

Starts plummet from COVID-19 impact

Nonresidential fixed investment & business output

Exports, imports, and net exports

Source: IHS Markit, Census, BEA © 2020 IHS Markit

Source: IHS Markit, BEA © 2020 IHS Markit

Source: IHS Markit, BEA © 2020 IHS Markit
Energy: a net macro negative
The Fed’s “alphabet soup” of programs, massive QE backstops financial markets

Risk spreads widen across ratings

Fed holdings of Treasury securities excluding bills
The CARES Act: strong dose of prevention, but only a little “stimulus”

What's in the CARES Act

<table>
<thead>
<tr>
<th>Description</th>
<th>Billions of dollars</th>
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<tbody>
<tr>
<td>Recovery rebates to individuals</td>
<td>292</td>
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<td>Expand &amp; extend unemployment benefits</td>
<td>260</td>
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<td>Small business loans &amp; grants</td>
<td>377</td>
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<td>Loans &amp; loan guarantees for large businesses &amp; govt</td>
<td>510</td>
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<td>Support for state &amp; local govt</td>
<td>150</td>
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<td>Health-related spending</td>
<td>180</td>
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<td>SNAP, child nutrition &amp; housing support</td>
<td>42</td>
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<td>FEMA disaster assistance funds</td>
<td>45</td>
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<td>Education spending</td>
<td>32</td>
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<td>Support for transportation industries</td>
<td>72</td>
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<tr>
<td>Reduce / delay taxes</td>
<td>300</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2,260</strong></td>
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Source: IHS Markit, JCT, CRFB, WSJ © 2020 IHS Markit
<table>
<thead>
<tr>
<th>Year</th>
<th>Major Economic Indicators</th>
<th>IHS Markit US Base Forecast (2 Apr '20): 2020-Q1 - 2024-Q4</th>
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<tbody>
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<td>2019</td>
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### Key Indicators of Real Activity
- **Real gross domestic product**
  - Contributions to growth:
    - Final sales
    - To domestic purchasers
    - Net export of goods & services
    - Change in private inventories
  - Major components of real GDP:
    - Personal consumption expenditure
    - Gross private domestic investment:
      - Residential investment
      - Nonresidential investment
    - Imports of goods & services
    - Corporate profits w/ IVA & CCAdj*
    - Compensation per hour*
    - Nonfarm payroll employment (mil.)
    - Industrial production, total*
    - Industrial production, mfg*
    - Capacity utilization (mfg, %)
    - Nonfarm payroll employment
    - Nonfarm hours per week
    - Civilian unemployment rate

### Prices, Productivity, & Costs
- **GDP chain-type price index**
- **CPI, all items (all urban)**
- **CPI, all items (urban)**
- **PCE price index**
- **PCE price index, excluding energy & food**
- **Price of WTI crude oil ($/barrel)**
- **Price of Brent crude oil ($/barrel)**

### Selected Financial Indicators
- **Federal funds rate**
- **BEL 10-Yr Treasury Note Rate (%)**
- **Baa corporate bond yield**
- **Baa corporate bond yield, weighted USD**
- **S&P 500 stock price index***

### Incomes & Related Measures
- **Corporate profits w/ IVA & CCAdj**
- **Real disposable personal income**
- **Personal saving rate (%)**
- **Fed. surplus (unified, FY, bil. $)**

### Q4/Q4 % change or annual avg.
- **2020**
- **2021**
- **2022**
- **2023**
- **2024**

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* Percent change at annual rate
** Billions of chained (2009) dollars
*** Quarterly percent change not annualized

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