



The Economic Outlook: The Recovery Gets Harder from Here

Karen Dynan

Harvard University and Peterson Institute for International Economics

Fall 2020 Global Economic Prospects Meeting

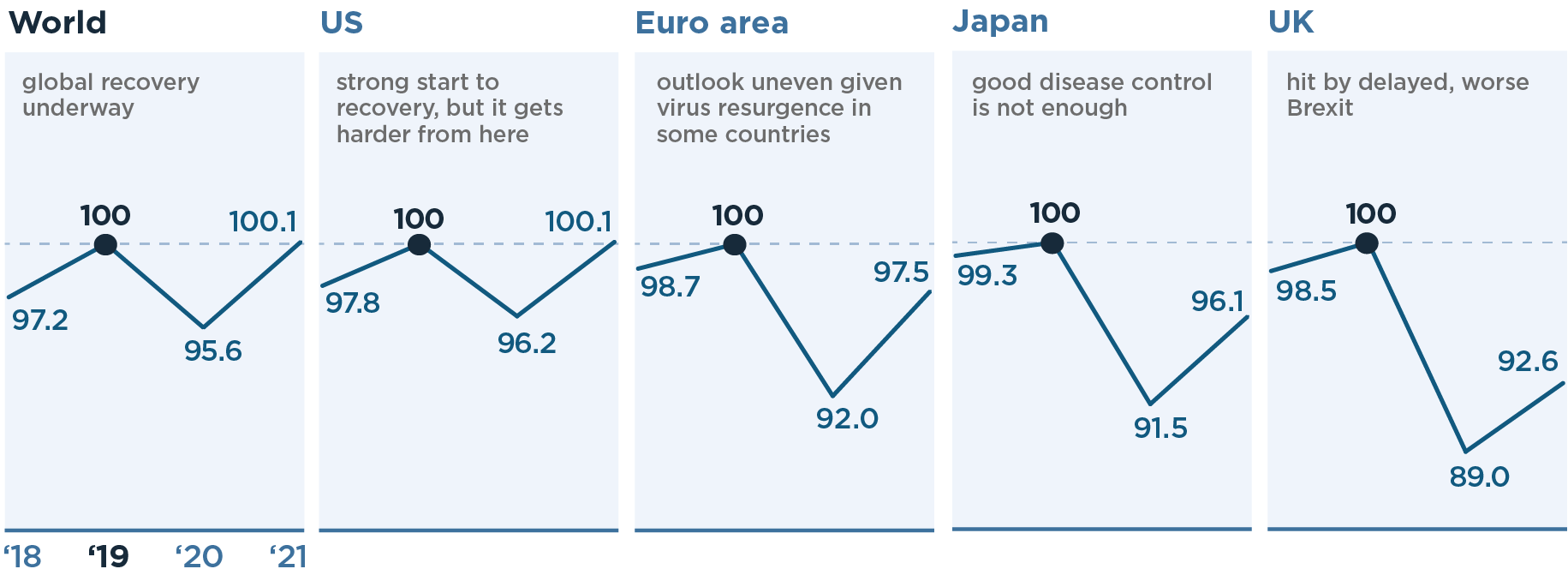
Washington, DC

October 8, 2020

The global recovery is underway but its pace will vary across countries



Evolution of real GDP, 2018–2021 (index, 2019 = 100)



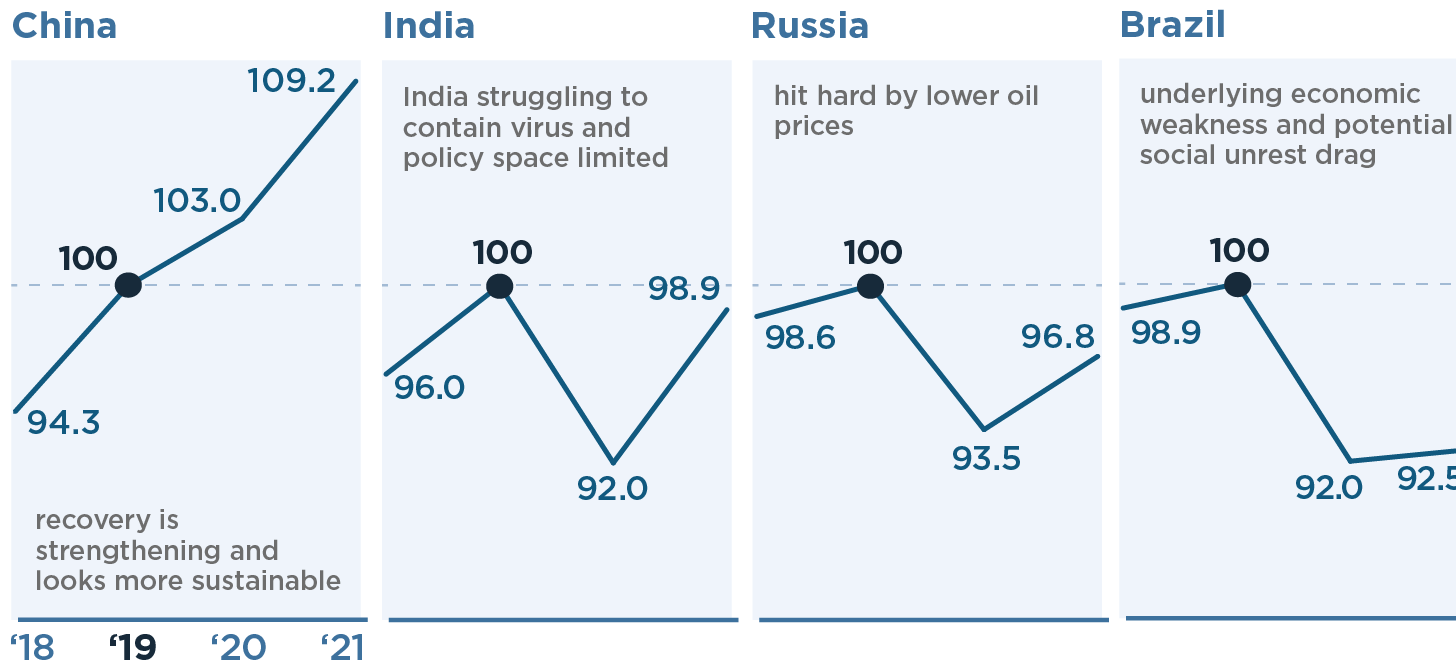
Note: Purchasing power parity weights used to calculate global GDP.

Source: Author's calculations using GDP growth rates from OECD for 2019 and PIIE for 2020-2021.

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The early stages of the US recovery showed a sharp rebound in aggregate demand



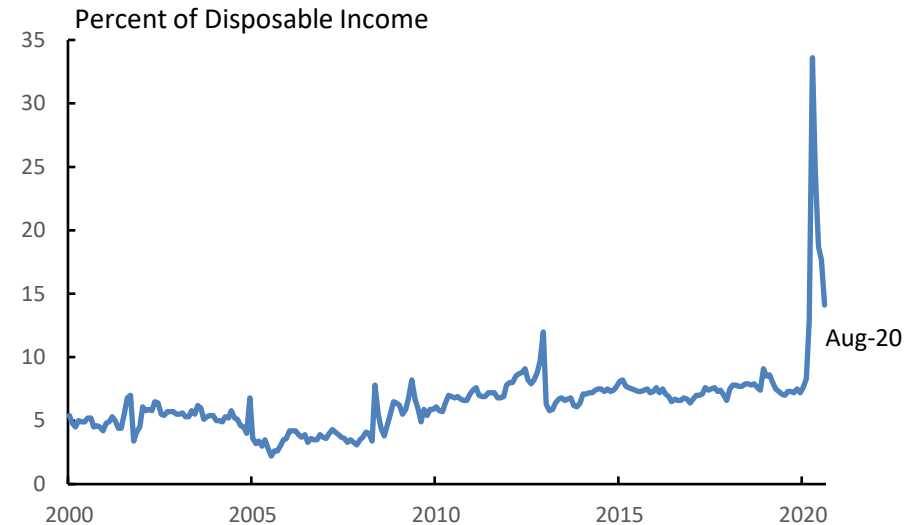
Gains in wealth and income left the fortunate consumers with great wherewithal to spend

S&P 500



Source: S&P Dow Jones Indices; FRED

Personal Saving Rate

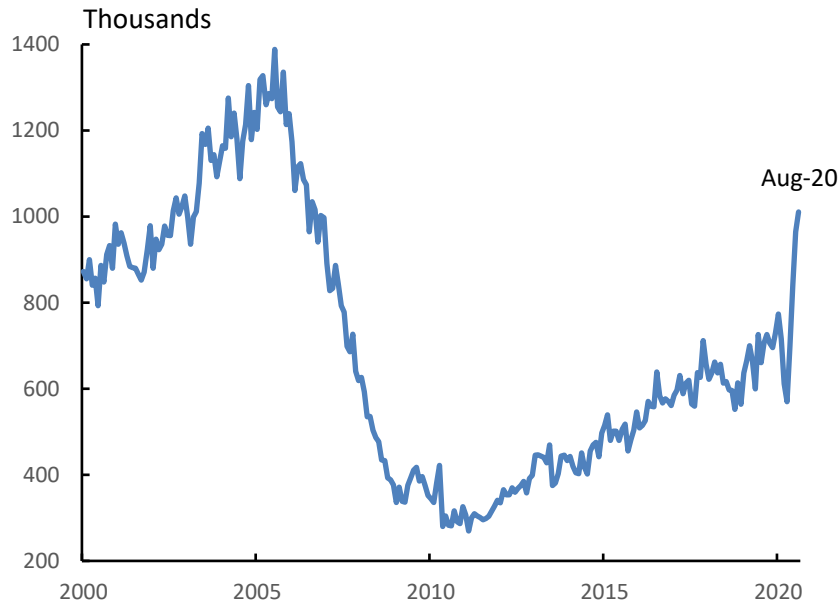


Source: US Bureau of Economic Analysis; FRED

Pent-up demand and low interest rates are powering spending on big-ticket items



New Single-Family Home Sales



Source: US Census Bureau; FRED

New Light Vehicle Sales



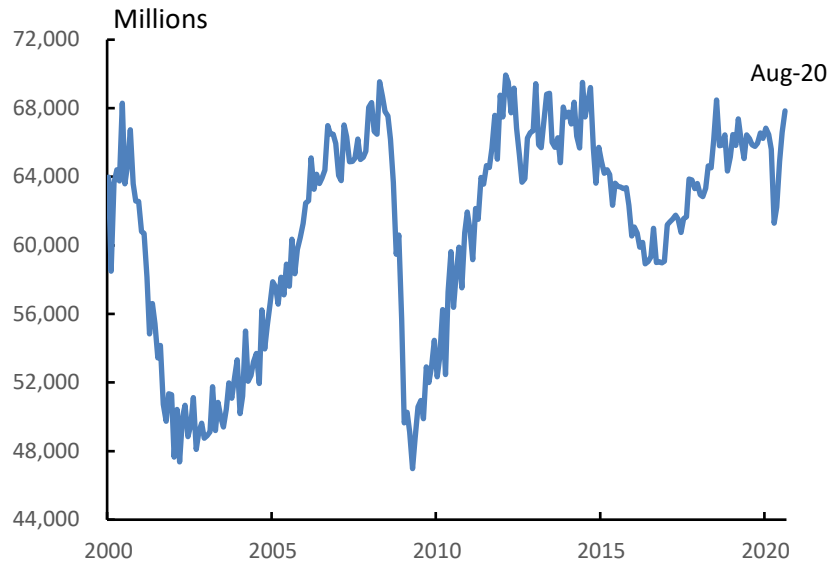
Source: US Bureau of Economic Analysis; FRED

Demand has been sufficient to boost some aspects of business confidence



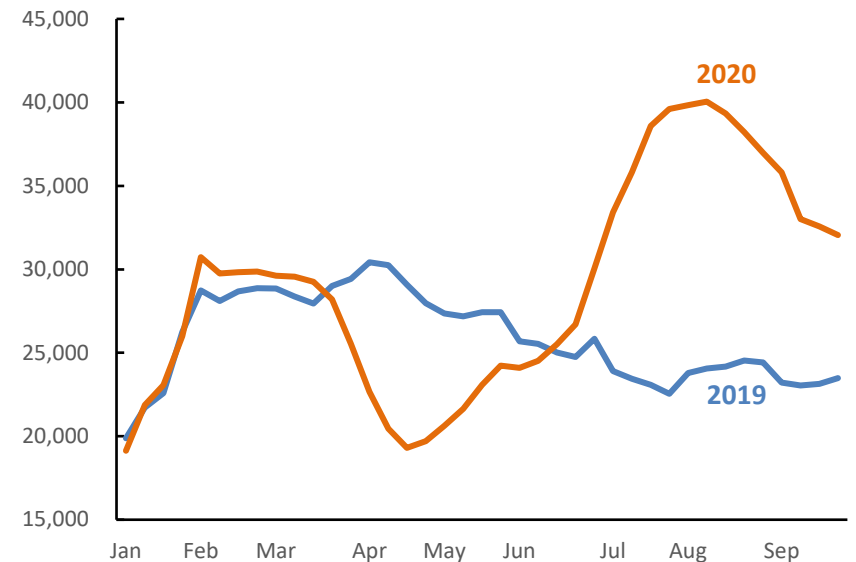
Firms are replenishing inventories, and, while some businesses have failed, applications to start new businesses are running high

Core Durable Goods Orders



Note: Nondefense capital goods excluding aircraft.
Source: US Census Bureau; FRED

Business Applications Filed By Likely Employers



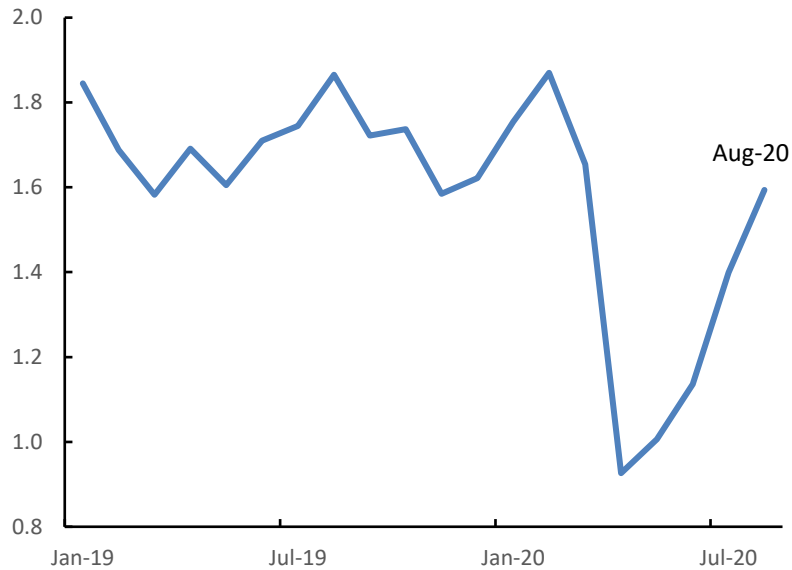
Note: Four-week moving average data are as of week 39 of each year
Source: US Census Bureau; FRED

Inflation and inflation expectations have recovered to (low) pre-pandemic levels



Core PCE Prices

Percent change from year earlier



Source: US Bureau of Economic Analysis; FRED

5-Year Breakeven Inflation Rate Implied by Treasury-Indexed Securities

Percent



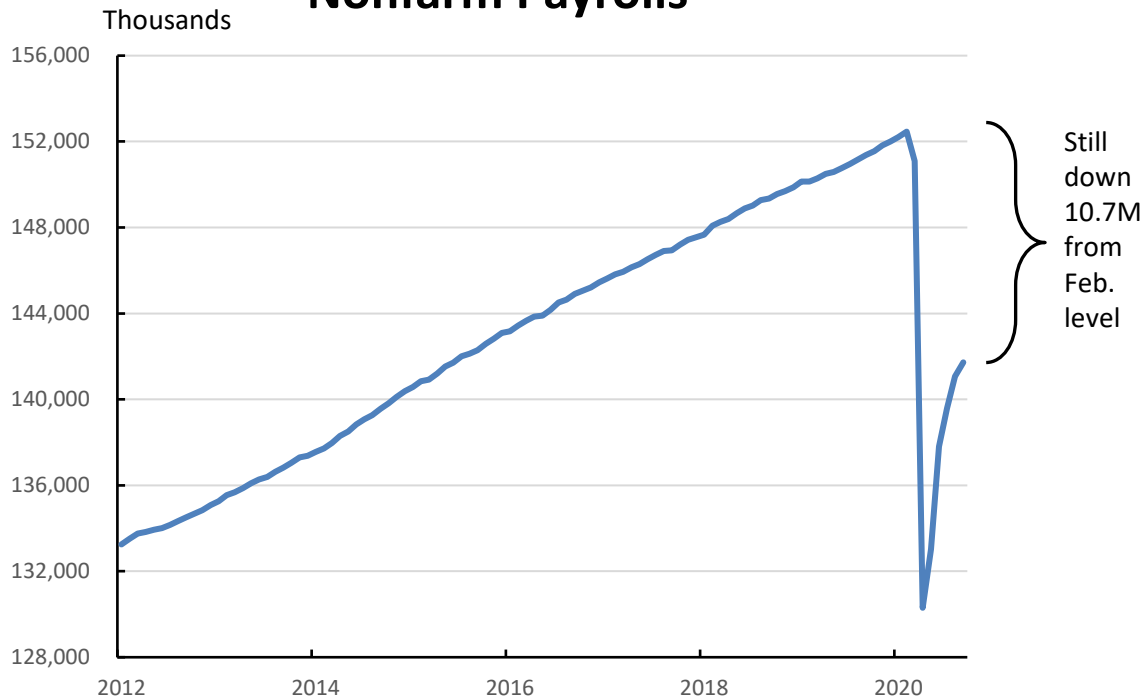
Source: Federal Reserve Bank of St.Louis; FRED



BUT:

The US recovery is only partial and the pace of improvement is slowing

Nonfarm Payrolls



Change in Nonfarm Payrolls (Thousands)

| | |
|------------|------------|
| Jun | 4781 |
| Jul | 1761 |
| Aug | 1489 |
| Sep | 661 |

Source: US Bureau of Labor Statistics; FRED

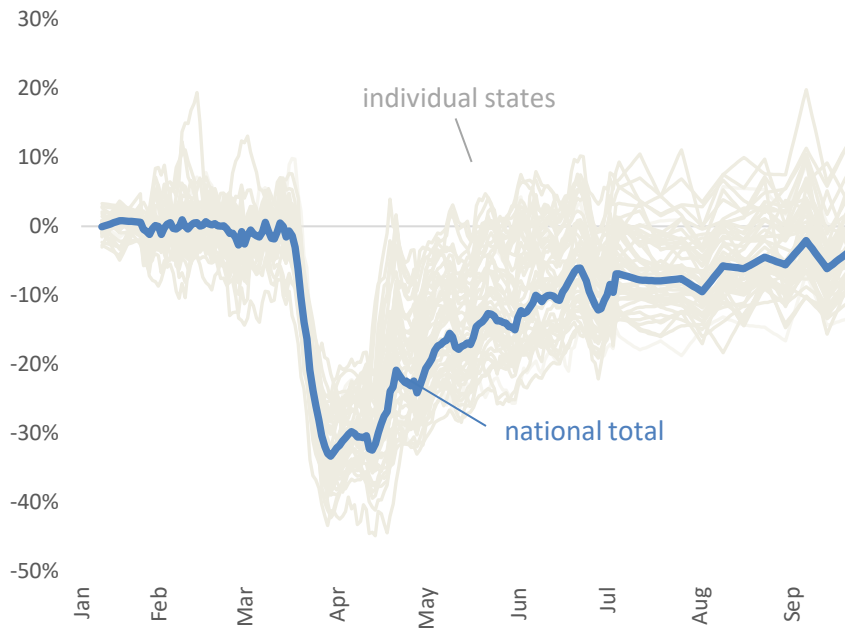
AND:

While the timing is similar across geographies, the recovery is very uneven



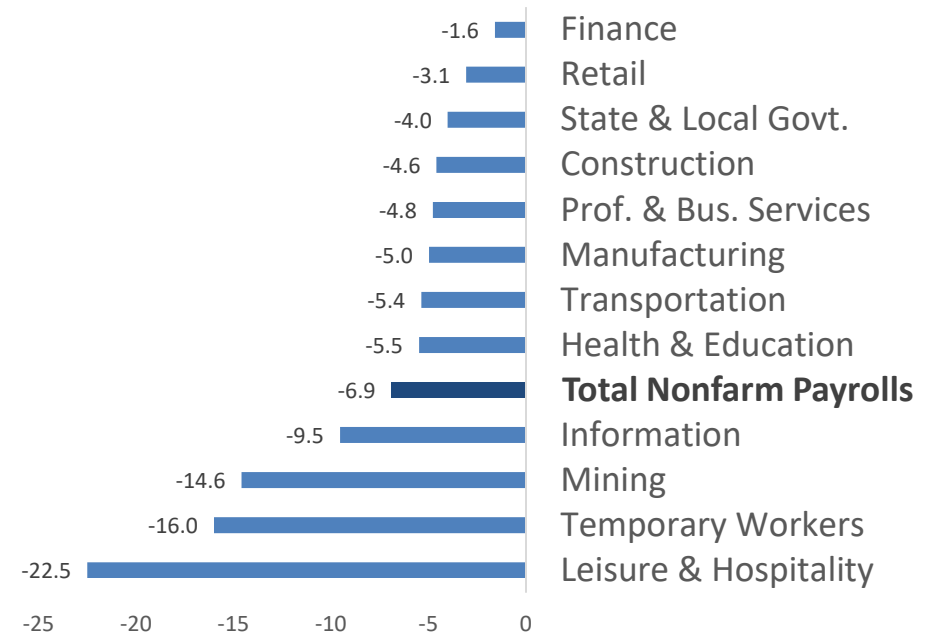
Change in Consumer Spending since January 2020

Percent



Change in Nonfarm Payrolls since January

Percent



Source: <https://tracktherecovery.org/>

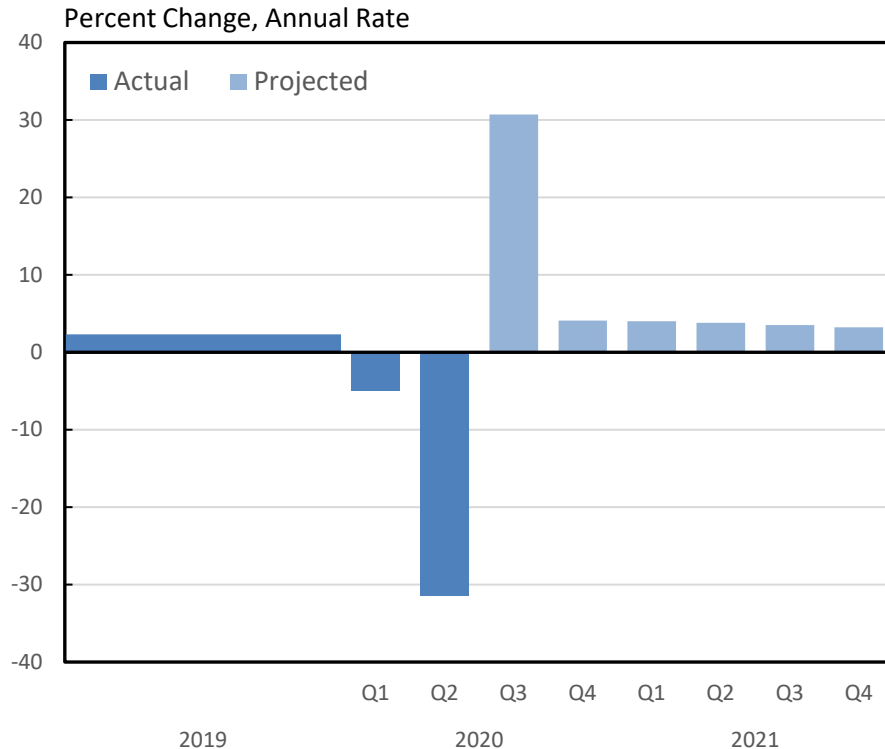
Note: Data for profession and business services exclude temporary workers.

Source: US Bureau of Labor Statistics; FRED

Baseline US forecast calls for growth to follow more typical recovery path going forward



U.S. Real GDP Growth

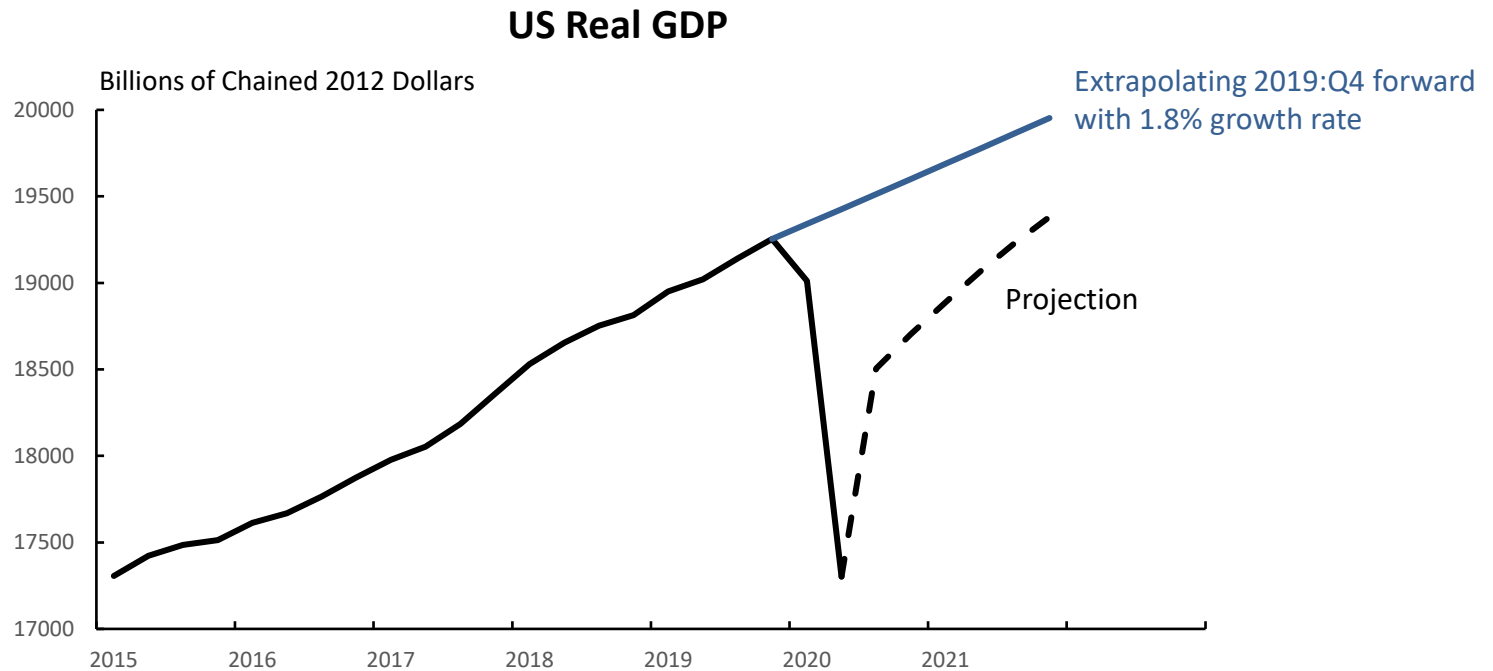


| | Unemployment Rate (Q4) | PCE Price Inflation (Q4/Q4) | |
|------|------------------------|-----------------------------|------|
| | | Headline | Core |
| 2018 | 3.8 | 1.9 | 1.9 |
| 2019 | 3.5 | 1.7 | 1.8 |
| 2020 | 7.3 | 1.4 | 1.5 |
| 2021 | 6.0 | 1.7 | 1.6 |

Shaded rows are projections.

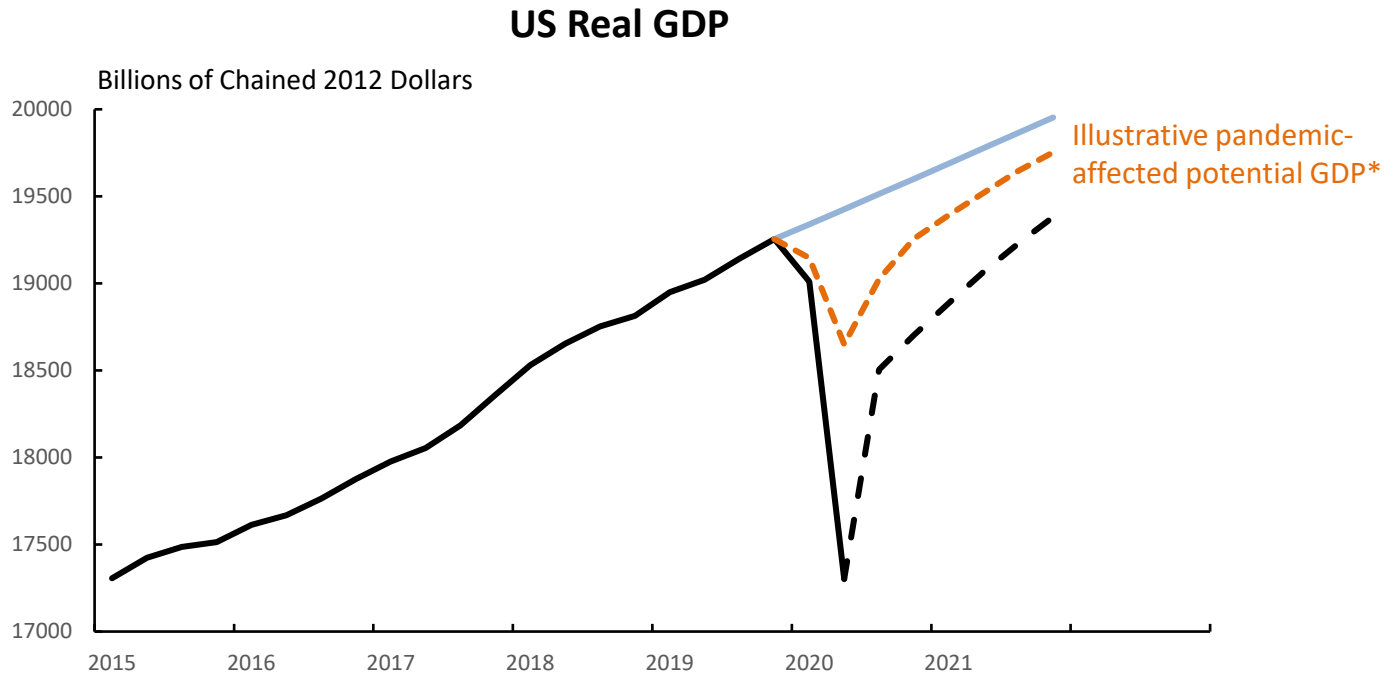
Source: US Bureau of Economic Analysis; Fred; author's forecast

The baseline forecast leaves the US economy 3 percent below where it would have been in 2021:Q4 in the absence of a pandemic



Source: US Bureau of Economic Analysis; author's forecast

Some of the gap is a shortfall relative to potential but some is a reduction in potential



Source: US Bureau of Economic Analysis; author's forecast

* Pandemic-affected potential GDP includes forces reducing aggregate supply over the short term and beyond.

Potential forces weighing on the supply side of the economy



| Short-term | Medium-term | And beyond |
|---|--|---|
| Reduced ability to conduct business in sectors where virus containment is difficult | Structural unemployment (and skill mismatch) as workers reallocate from sectors that do not revive Reduced “organizational capital” as firms fail and get replaced by new ones Debt overhang in business sector (and possibly in household sector) | Lower level of private capital stock because of reduced business investment Lower level of public capital stock as budget gaps force states to tighten belts Less skill development due to remote education |

Outcomes highly dependent on health and policy, so important to look at scenarios



All of the major economies had strong fiscal and monetary policy responses, but different health policies and different economic outcomes so far

Therefore, it is important in forecasting to consider alternative scenarios

Macroeconomic policy, health policy, and the extent of long-term damage will all matter



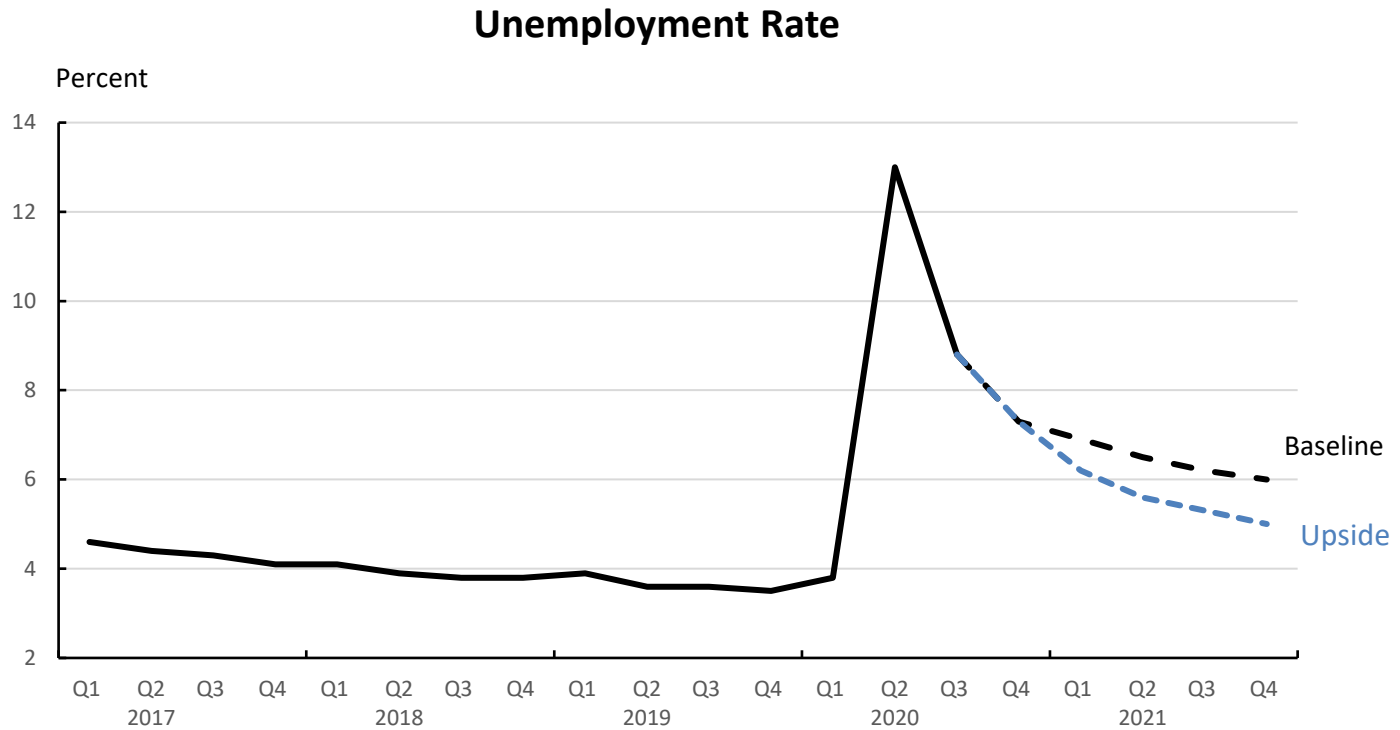
What might produce a stronger recovery?

Early vaccine is effective and has high take-up

Significant fiscal stimulus (\$2+ trillion) is passed in early 2021

Economic scarring is limited and that which occurs does not significantly suppress economic activity

Upside scenario



Source: US Bureau of Labor Statistics; author's forecast

What might produce a weaker recovery?



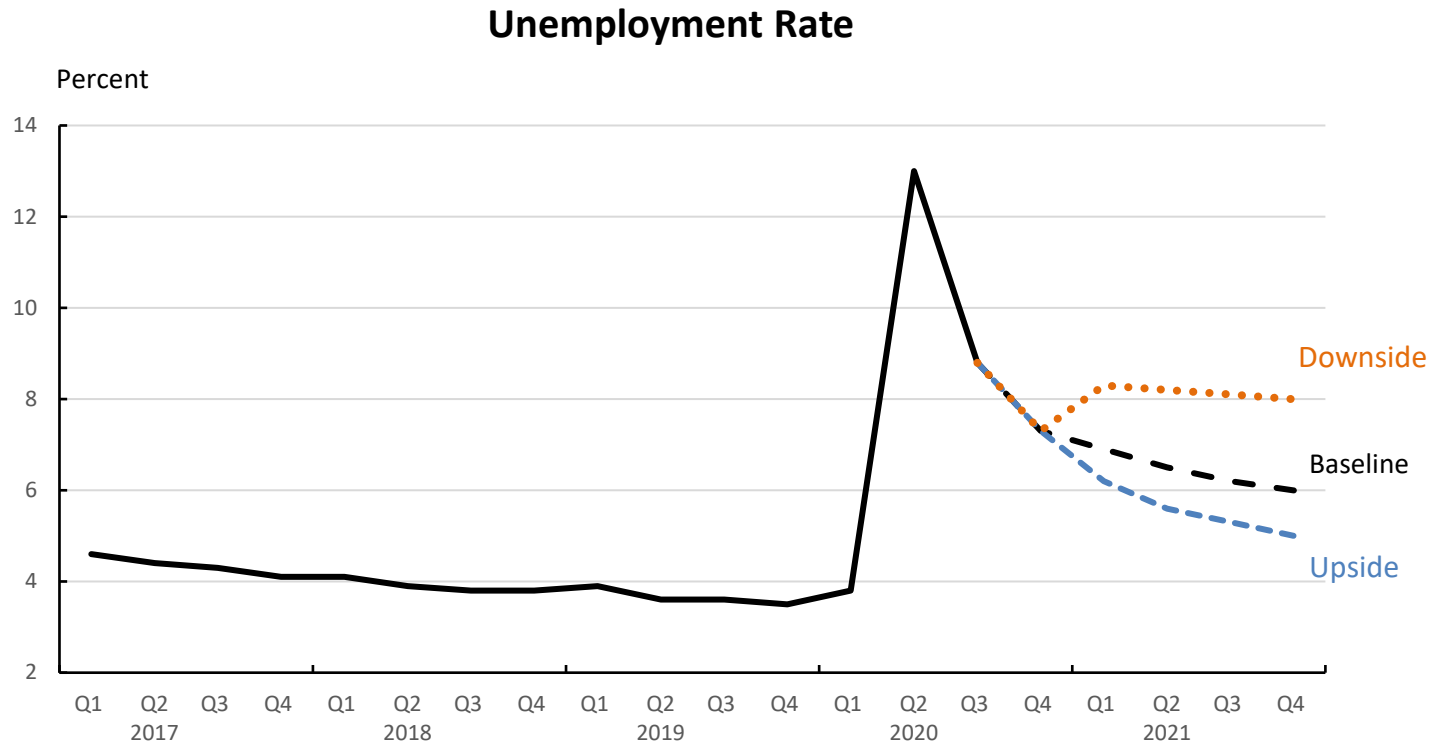
Vaccine progress is slower than currently expected (partially effective and limited take-up)

Future fiscal stimulus is limited (modest package by February, nothing further)

Replacement of failed small businesses is slow

Household sector suffers wave of financial distress

Downside scenario



Source: US Bureau of Labor Statistics; author's forecast

Addendum: Real GDP Growth Rates



| Real GDP Growth (Y/Y) | 2019 | 2020 | 2021 |
|-----------------------------|------------|-------------|------------|
| Global Output Growth | 2.9 | -4.4 | 4.7 |
| United States | 2.2 | -3.8 | 4.1 |
| Euro Area | 1.3 | -8.0 | 6.0 |
| Japan | 0.7 | -8.5 | 5.0 |
| United Kingdom | 1.5 | -11.0 | 4.0 |
| China | 6.1 | 3.0 | 6.0 |
| India | 4.2 | -8.0 | 7.5 |
| Russia | 1.4 | -6.5 | 3.5 |
| Brazil | 1.1 | -8.0 | 0.5 |

Source: OECD for 2019, PIIIE for 2020-2021. Annual-average-over-annual-average growth rates. PPP weights.