![IHS Markit]

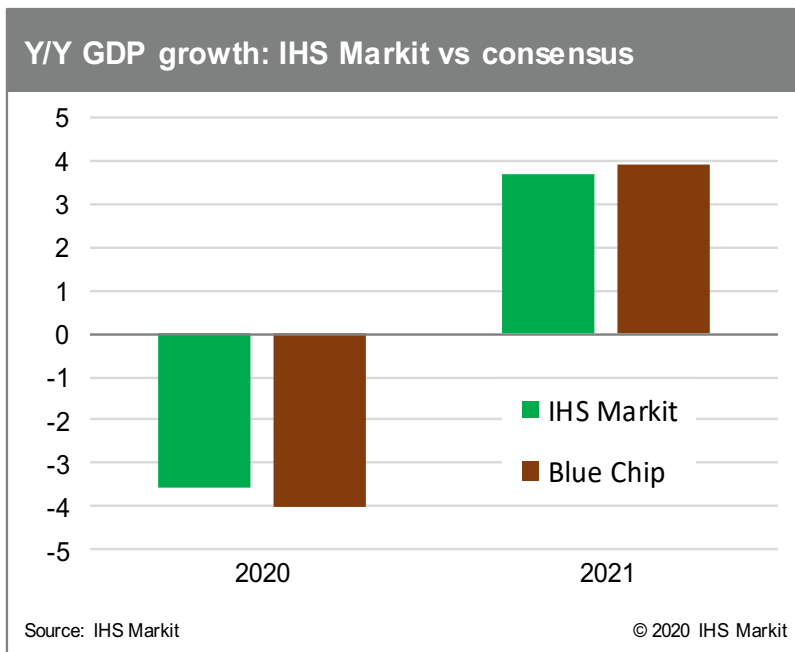# The US economic outlook: bounce, fade, slog

FTA Webinar
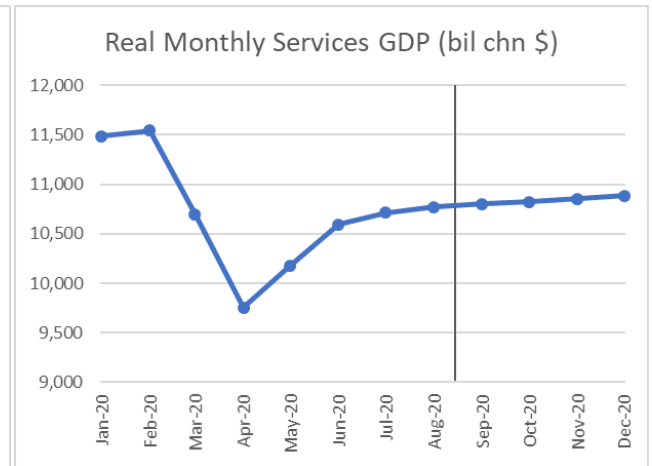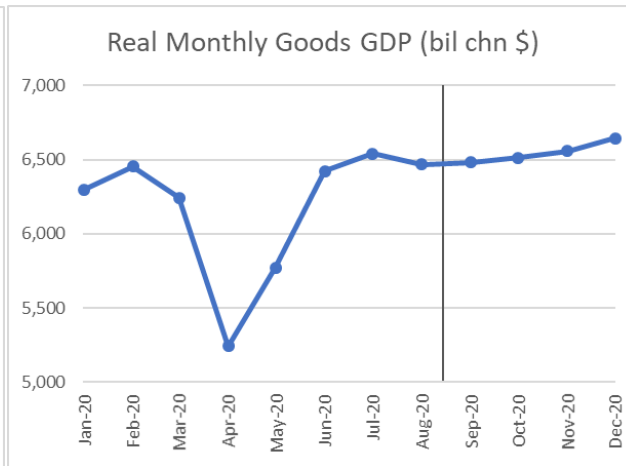
13 October 2020

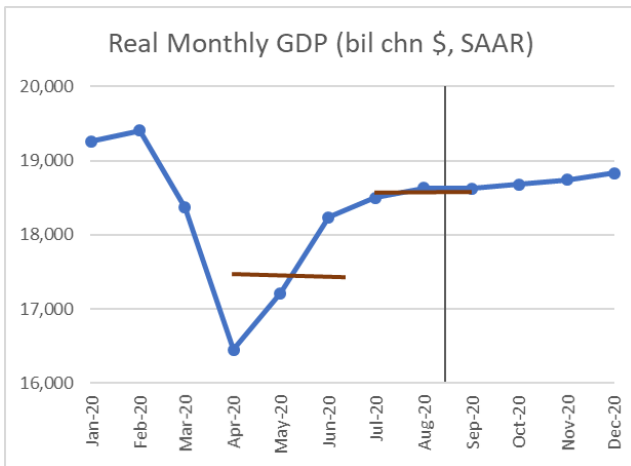Joel Prakken, Chief US Economist

Forecast in summary: IHS Markit vs 10 October Blue Chip consensus

Y/Y GDP growth: IHS Markit vs consensus

Source: IHS Markit

© 2020 IHS Markit

- The IHS Markit forecast for Y/Y real GDP growth is slightly above consensus in 2020, below consensus in 2021

- For 2020, the difference is entirely in Q3. IHS Markit is showing 33% (annualized) growth for the quarter, Blue Chip showing 29%

- Y/Y growth can be misleading. For 2021, measured Q4/Q4, the IHS Markit forecast (2.8%) is a percentage point below the consensus forecast (3.8%). We see a harder slog after a quick bounce.

- But, both IHS Markit and the consensus see GDP regaining its previous peak in 2020:Q4.

- Post-pandemic, IHS Markit expects a persistent loss of (potential) output, with risks to the downside

- Inflation and interest rates seem almost an afterthought

- Forecast depends crucially on fiscal assumptions…

- … and assumptions about the course of the pandemic

IHS Markit®

High frequency data: Q3 bounce, Q4 (and beyond) fade

Real Monthly GDP (bil chn $, SAAR)

Real Monthly Goods GDP (bil chn $)

Real Monthly Services GDP (bil chn $)

With 2 months of Q3 in the books, GDP is set to grow > 30%, but incremental slowing is setting up a much weaker Q4.

Monthly GDP-goods has already regained the pre-pandemic peak.

Monthly GDP-services has flattened out well below the pre-pandemic peak.

Fading growth in activity sensitive to social distancing

STR hotel data: revenue per available room
Percent change from comparable week, 2019

Source: STR
© 2020 IHS Markit

Gross movie receipts
Percent change from comparable week, 2019

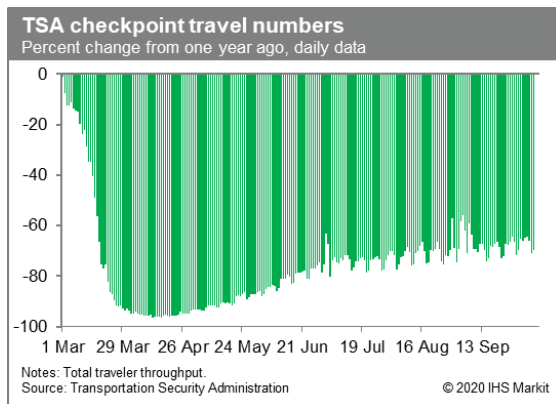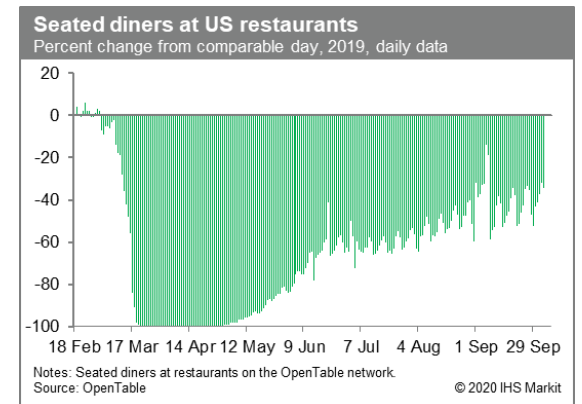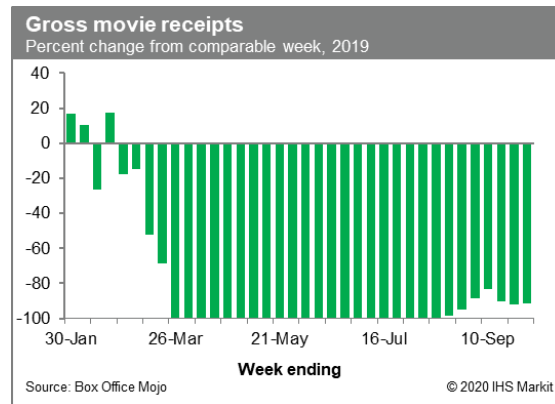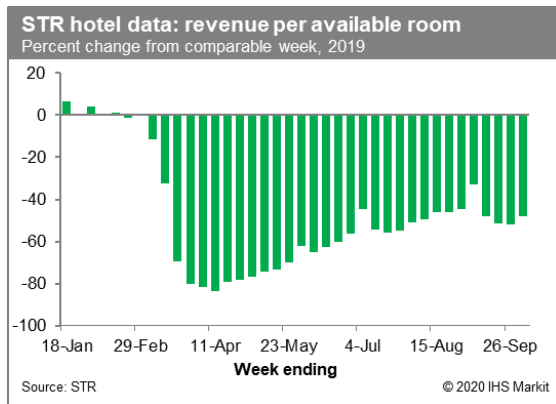Source: Box Office Mojo
© 2020 IHS Markit

Seated diners at US restaurants
Percent change from comparable day, 2019, daily data

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

TSA checkpoint travel numbers
Percent change from one year ago, daily data

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

US local businesses & hourly employment
% difference from Jan 2020, 7-day average

Local businesses open
Hourly employees working

Notes: % difference is from median of comparable Jan weekday
Source: Homebase
© 2020 IHS Markit

US volume of directions requests on Apple Maps
% difference from 13 Jan 2020, 7-day moving average

Driving
Walking
Transit

Source: Apple
© 2020 IHS Markit

Behind the fade: the two "Cs": cases and containment…

New COVID-19 cases & deaths USA
Daily data through 7 October

New cases & 7-day avg. (left)
Deaths, 7-day avg. (right)

Source: Johns Hopkins University
© 2020 IHS Markit

GDP-weighted US weekly containment index
100 = most restrictive

6 Oct

Source: IHS Markit
© 2020 IHS Markit
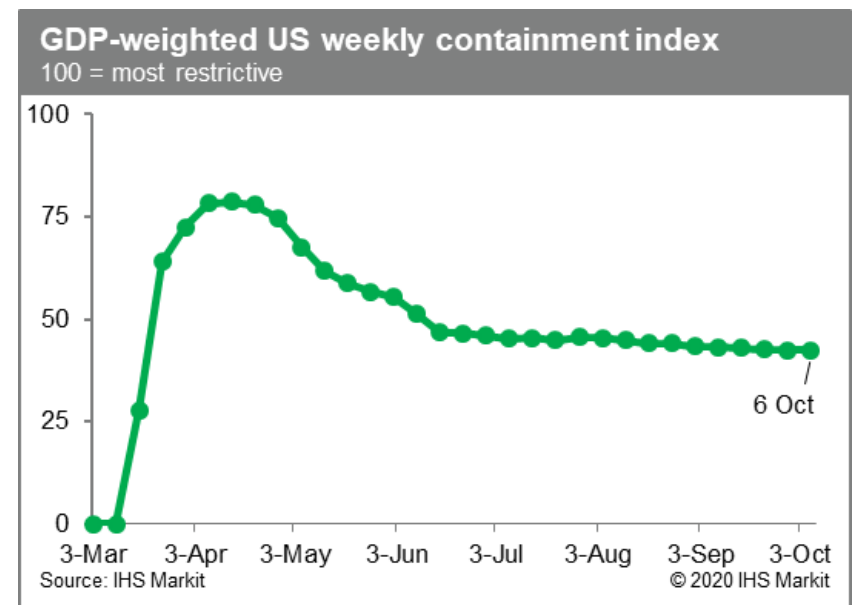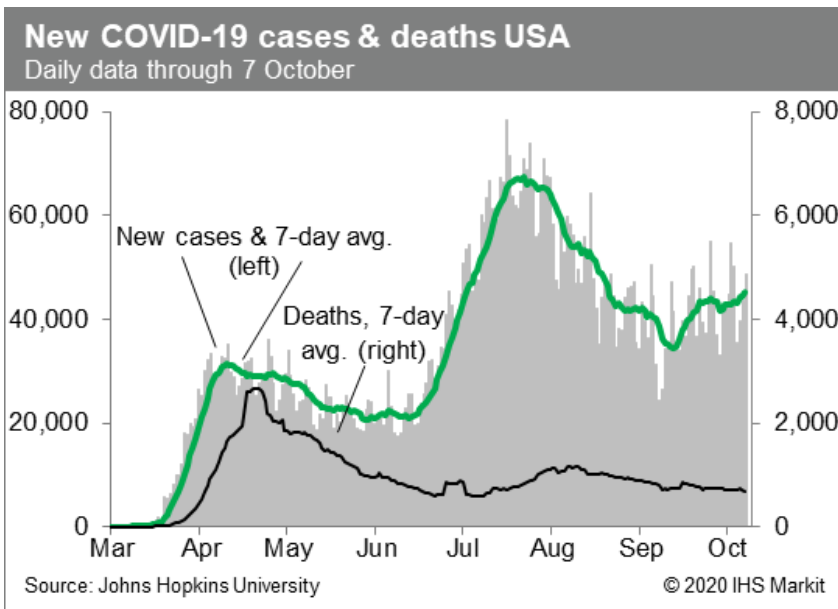
Our empirical analysis suggest both cases and containment matter near term

Average consumer credit and debit card spending
Percent difference from Jan 2020

Week ending
27 Sep (-2.3%)

Source: Opportunity Insights Economic Tracker, Affinity Solutions   © 2020 IHS Markit
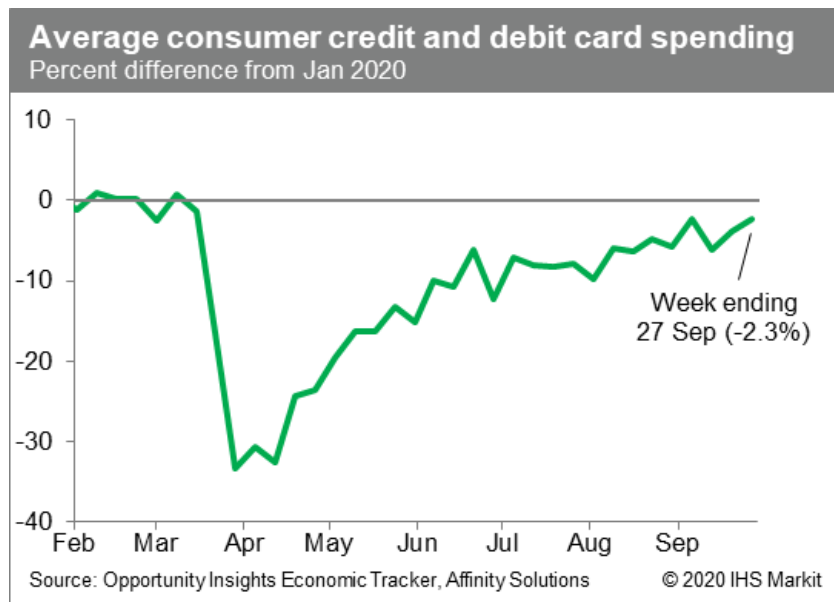
```
Dependent Variable: D(AFFINITY)
Method: Panel Least Squares
Date: 10/12/20   Time: 08:52
Sample (adjusted): 2/16/2020 9/20/2020
Periods included: 32
Cross-sections included: 51
Total panel (balanced) observations: 1632
```
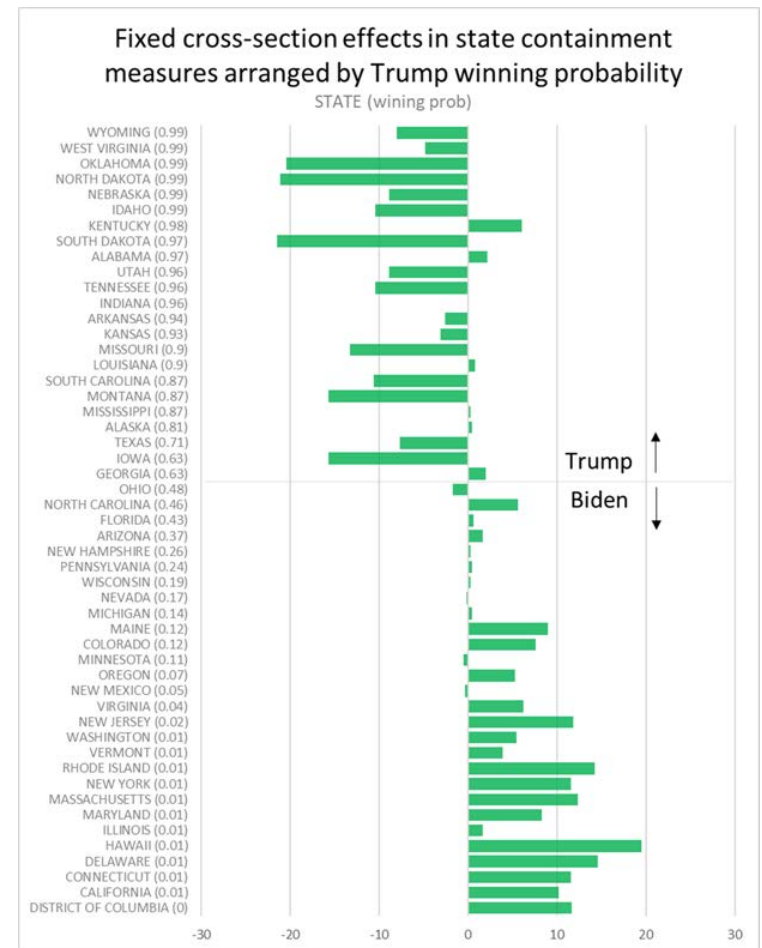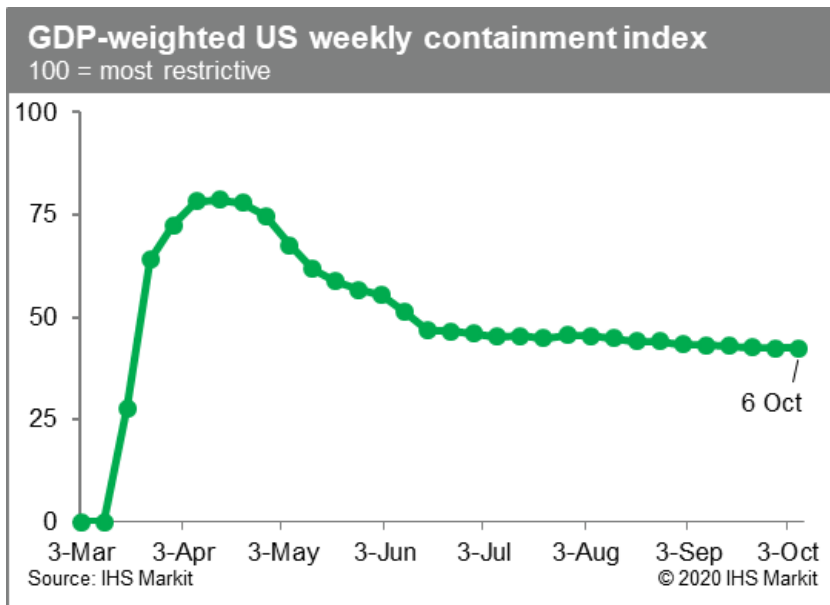
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.001343	0.000727	-1.848844	0.0647
D(CONTAINMENT)	-0.000179	9.74E-05	-1.832239	0.0671
D(CASES)	-0.000673	0.000244	-2.762679	0.0058
D(AFFINITY(-1))	-0.387225	0.022983	-16.84805	0.0000

Effects Specification

Period fixed (dummy variables)

R-squared	0.775134	Mean dependent var	-0.001189
Adjusted R-squared	0.770347	S.D. dependent var	0.059689
S.E. of regression	0.028604	Akaike info criterio	-4.249326
Sum squared resid	1.306650	Schwarz criterion	-4.133569
Log likelihood	3502.450	Hannan-Quinn criter.	-4.206384
F-statistic	161.9124	Durbin-Watson stat	2.110896
Prob(F-statistic)	0.000000		

Containment has a clear political profile…

GDP-weighted US weekly containment index
100 = most restrictive

6 Oct

Source: IHS Markit
© 2020 IHS Markit

Fixed cross-section effects in state containment measures arranged by Trump winning probability
STATE (wining prob)

Trump
Biden

Behind the fade: overshoots and waning fiscal policy support (under current law)

Overshoot in PCE-durable goods to reverse in Q4

Source: IHS Markit   © 2020 IHS Markit

Income support from pandemic relief measures

Source: IHS Markit   © 2020 IHS Markit

Forecast at a glance

Historic contraction in 2020 Q2

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

Legend: Real GDP growth | Unemployment rate (%)

Contributions to GDP growth (Q4/Q4)

Source: IHS Markit, BEA   © 2020 IHS Markit

Legend: Government | Net exports | Inventory inv | Residential inv | Non-res inv | PCE

Core inflation to remain below 2% through 2024

Source: IHS Markit, Philly Fed, BEA, BLS   © 2020 IHS Markit

Legend: Unemployment gap (right) | Inflation expectations (left) | Core PCE inflation (left)

Equities to continue to rebound gradually

Source: IHS Markit, S&P   © 2020 IHS Markit

Legend: S&P 500 index (left) | Equity risk premium (right)

Fed keeps funds rate pinned at 0 through 2026, term yields rise gradually

Source: IHS Markit, FRB   © 2020 IHS Markit

Legend: 10-yr treas.-note | 2-yr treas.-note | Conv. mortgage rate | Fed funds rate

Forecast overview

	2019	2020	2021	2022	2023	2024
Real GDP*	2.3	-2.6	2.8	3.4	2.6	2.6
		-3.6	3.5	3.5	2.6	2.5
Pvt Final Dom Dem*	2.3	-2.5	2.6	3.1	2.9	2.9
		-3.6	3.1	3.2	2.8	2.6
Unemployment Rate**	3.5	7.3	6.0	4.6	4.1	3.6
		7.7	6.0	4.6	4.0	3.6
Core PCE Inflation*	1.6	1.7	1.7	1.6	1.6	1.8
		1.2	1.8	1.6	1.7	1.8

* 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

Unprecedented fiscal support of incomes to wane by next year

Effect of pandemic stimulus on real GDP
percent of base forecast level

Legend: Monetary, Fiscal

Source: IHS Markit   © 2020 IHS Markit

Effect of pandemic stimulus on unemployment
percentage points

Legend: Monetary, Fiscal

Source: IHS Markit   © 2020 IHS Markit
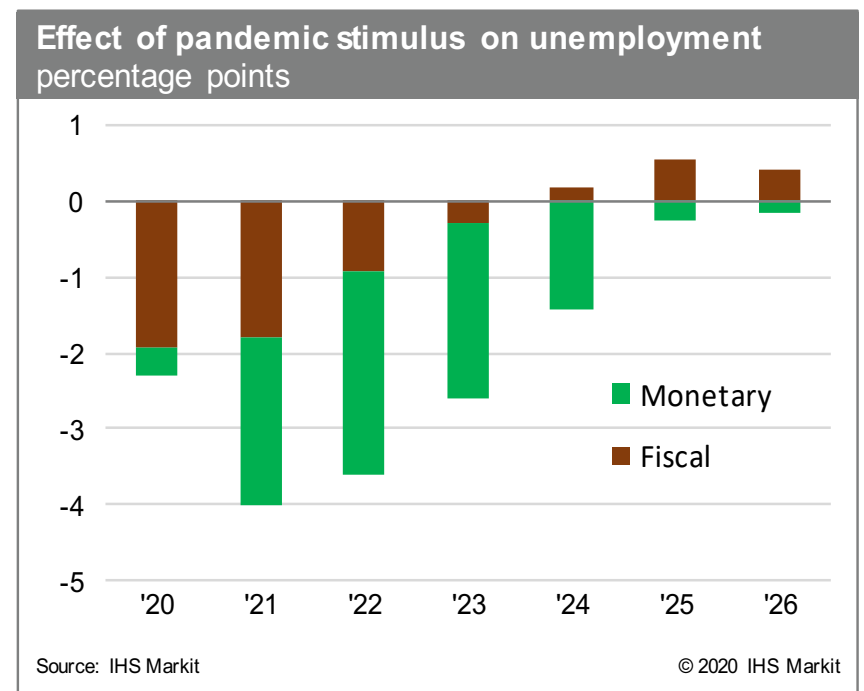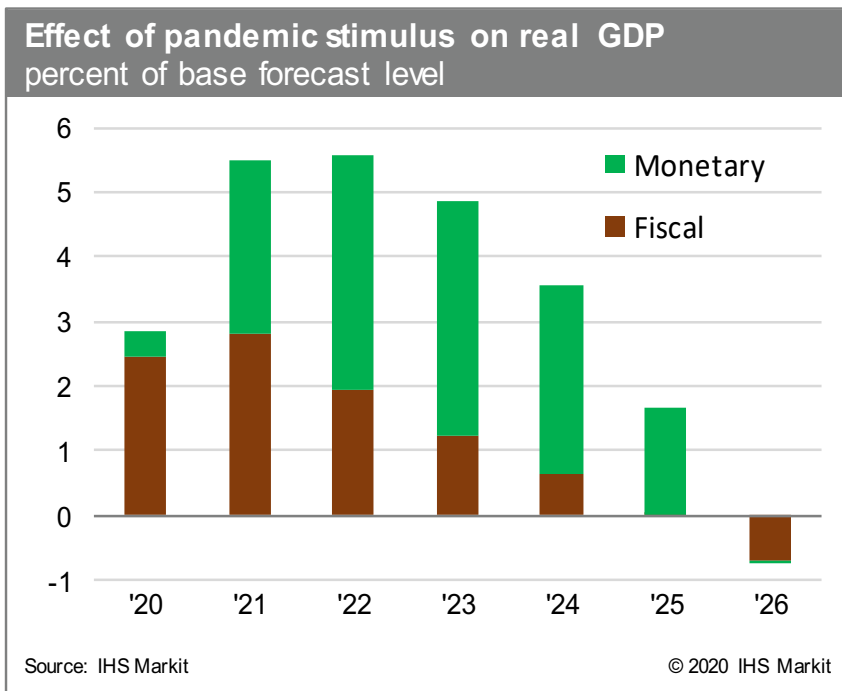
# Biden tax proposals: 10-yr / $3.5 trillion progressive tax increases

Biden tax proposals: 10-yr / $3.5 trillion
Billions of dollars, fiscal years 2021-30

Provision	Amount
Raise corporate tax rate to 28%	$1,248
Increase Social Security earnings cap	$901
Gains taxed as ordinary income for incomes > $1 mil; no step-up in basis	$428
Cap itemized deductions (28% limit, Pease limitation)	$327
Double (to 21%) minimum tax on foreign subsidiaries	$311
15% minimum tax on book income with foreign tax credit	$218
Phase out small business income deduction > $400,000	$209
Restore top individual rate to 39.6%	$137
Financial risk fee on large banks	$100
All other	$38
Increase child and dependent care tax credits	$100
First-time homebuyers & renters' tax credits	$300
Total	**$3,517**

Source: IHS Markit, CRFB

Biden tax proprosal: change in after-tax inome (%)
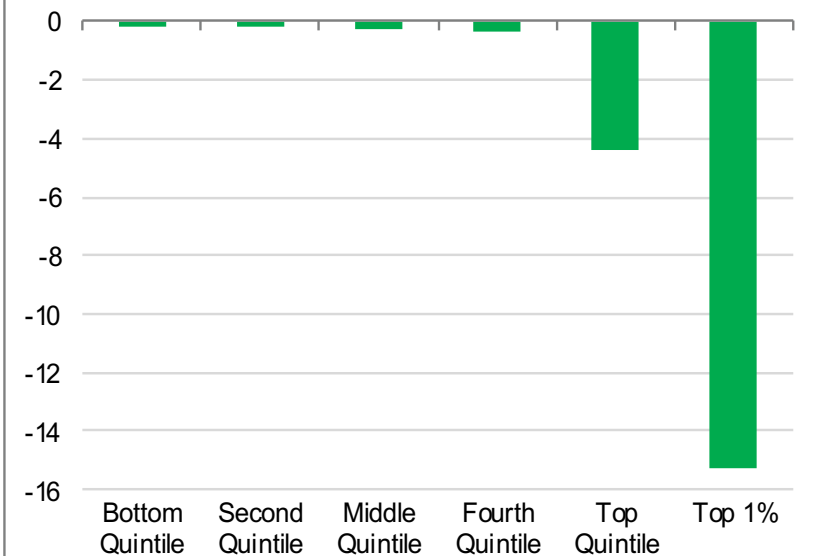
Source: IHS Markit   © 2020 IHS Markit

# Biden spending proposals: 10-yr / $5.4 trillion of investments

Biden spending proposals: 10-yr / $5.4 trillion
Billions of dollars, fiscal years 2021-30

Category	Amount
Education	$1,930
Infrastrucutre and R&D	$1,601
Housing	$650
Social Security benefits	$291
Net healthcare	$352
Prescription Drugs	$1,253
Other new spending	$1,605
Paid leave	$547
Total	**$5,370**

Source: IHS Markit, PWBM

Biden spending proposals

Total: $5.37 trillion, 2021-30
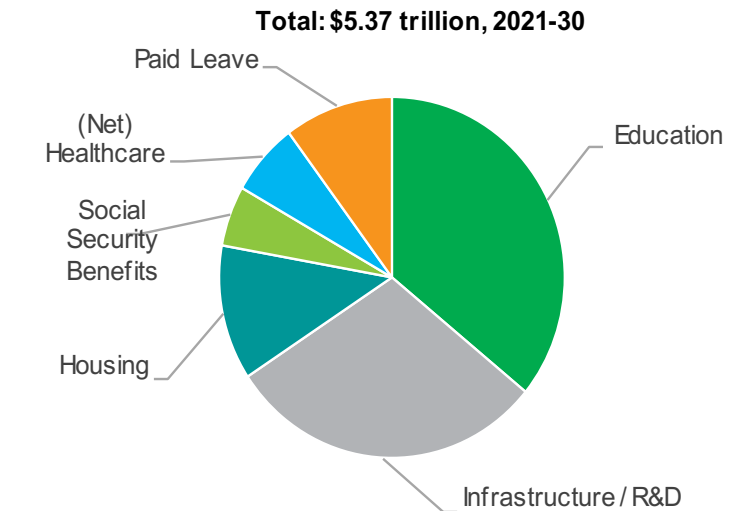
Source: IHS Markit, BEA   © 2020 IHS Markit

Initial thoughts on macro impact of Biden fiscal agenda

- Keynesian stimulus to aggregate demand: could be pretty big!

  > $5.4 tril spending, $3.5 tril taxes ➔ $190 bil/yr higher primary deficit over 2021-30 = ¾% of GDP

  > "Balanced budget multiplier" of 1 on first $3.5 tril of tax-financed spending, plus multiplier of 1.5 on extra $1.9 tril of debt-financed spending = $635 bil/yr on aggregate demand = 2.5% of GDP!

  > Staggered implementation: spending first, taxes later ➔ front-loaded stimulus

- Disincentives of higher marginal rates: ~ -0.6% long-run impact on level of GDP

- Long-run impacts on potential GDP

  > Negatives: tax disincentives; higher deficits

  > Positives: public investments; demand creates supply ➔ more private investment

- Other considerations

  > "Sustainable" GDP

  > Income distribution