

Rotary Club of Orlando

U.S. Economic Outlook

National Economic Education Delegation

Scott Baier Ph.D.

Professor and Chair, John E. Walker Department of Economics,
Clemson University

January 7, 2021



1

U.S. Economy in Global Perspective

U.S. Nominal GDP:

\$21.747 trillion in 2019-Q4

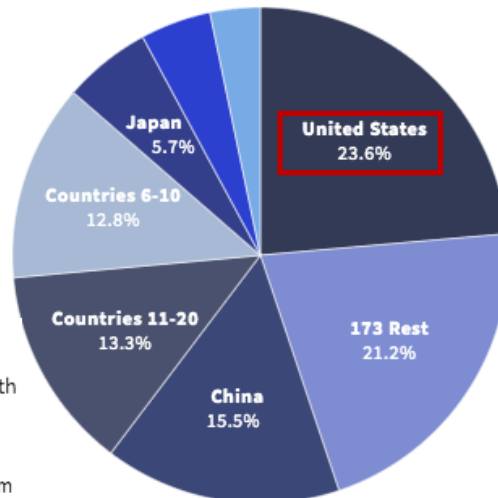
\$19.487 trillion in 2020-Q2

\$21.158 trillion in 2020-Q3

% Share of the Global Economy

The 173 countries outside the top 20 make up less than a fourth of the total global economy.

- United States
- 173 Rest
- China
- Countries 11-20
- Countries 6-10
- Japan
- Germany
- United Kingdom

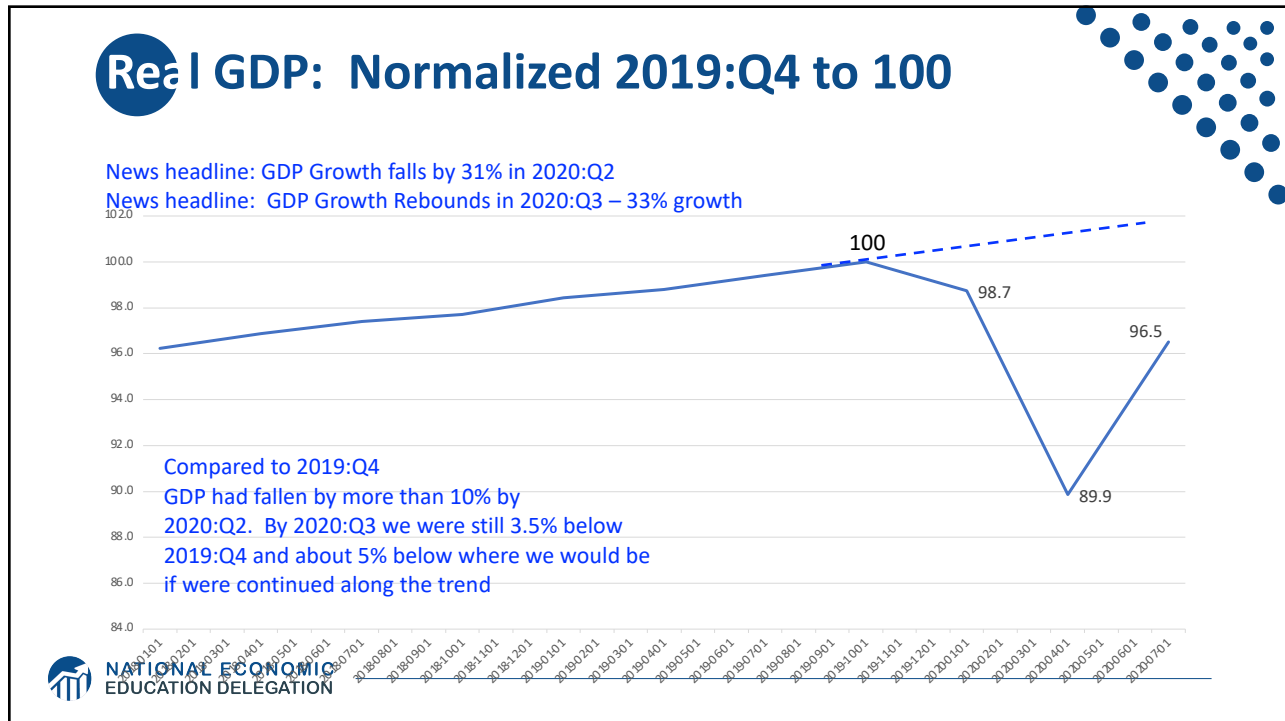


Source: IMF

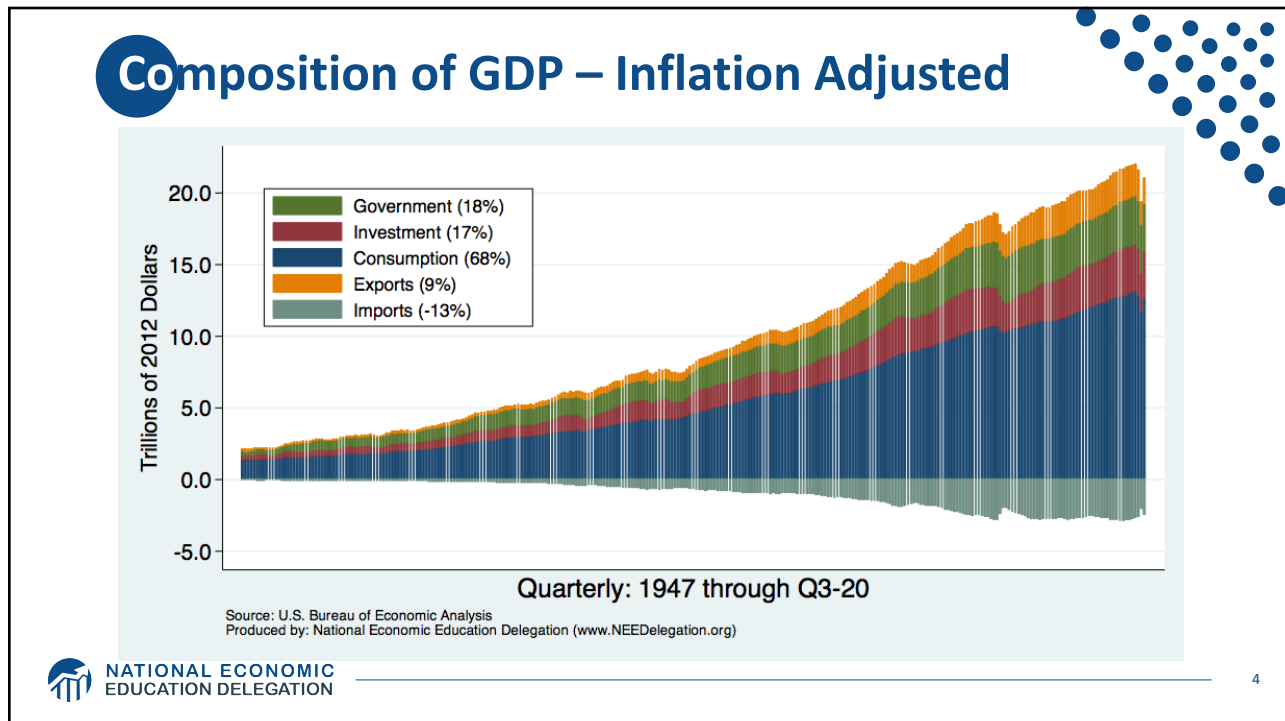


2

2



3



4

2020 -- This Time is Different

- **Great Depression**
 - A Financial Crisis which and (initial) flawed policy response
 - -- resulted in persistent high unemployment
- **Great Recession**
 - A Financial Crisis that spilled over into the real economy
- **Oil Crisis of 1975 : Supply Shock due to a sharp rise in the price of oil**
- **Prior to the pandemic none of the above:**
 - Financial markets were not in trouble.
 - Real GDP growth was strong buoyed by strong consumer spending.
 - Unemployment and inflation were both low.
 - Oil prices were falling.
- **COVID-19 – “Health Shock”**
 - Supply Shocks: Disrupted supply chains
 - Demand Shocks: Limit market transaction in order to reduce the spread
 - Sudden Demand Stop
- **Spanish Flu (1918)**
 - Structure of production and consumption is notably different



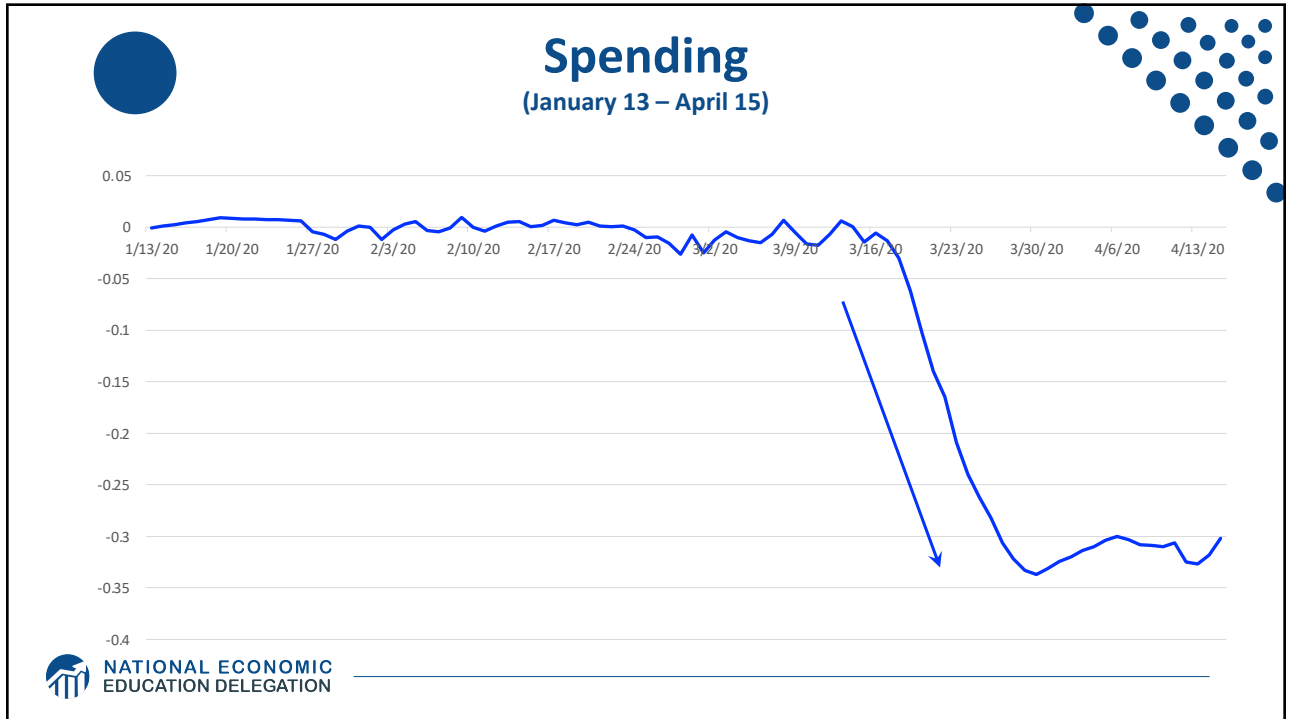
5

Conclusion

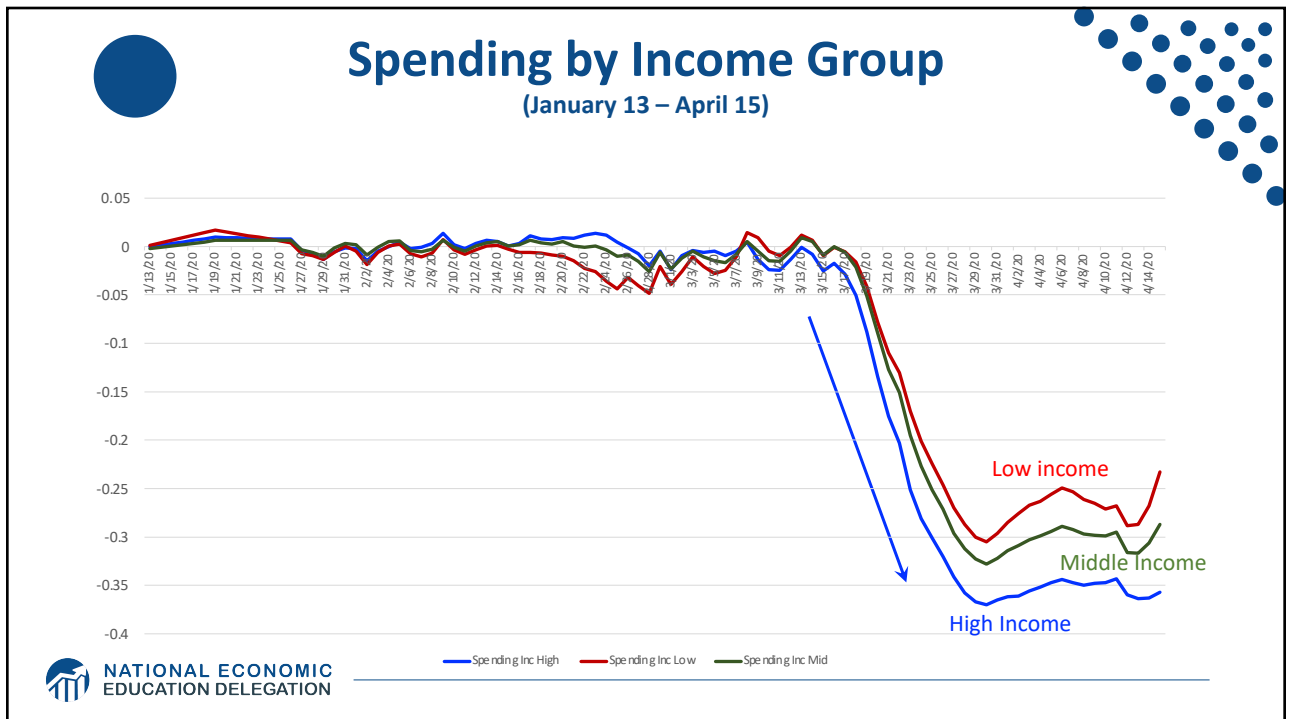
- **The economic recovery in 2021 depends crucially on**
 - The efficacy and the distribution of the vaccines
 - The willingness of the population to “continue” follow safety guidelines.
 - The ability of the fiscal response to provide some income support for households and support small businesses.
 - The ability of businesses and households to adapt
 - Resolution of political uncertainty



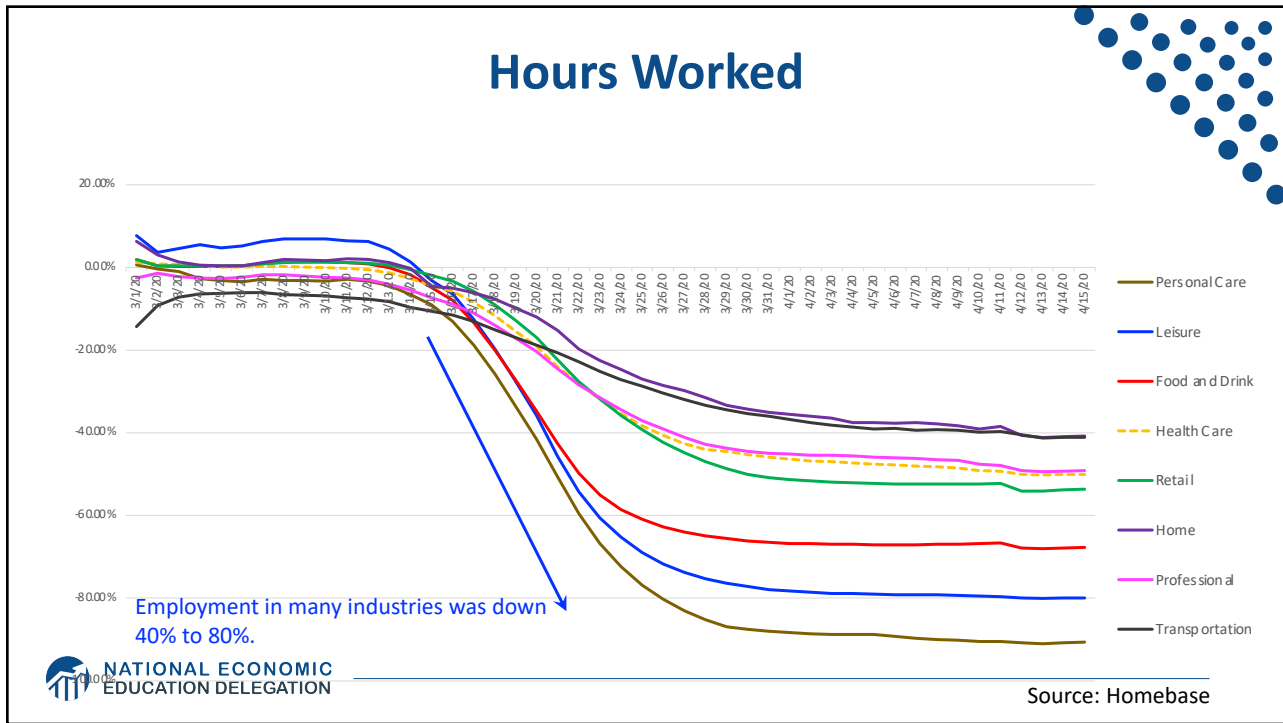
6



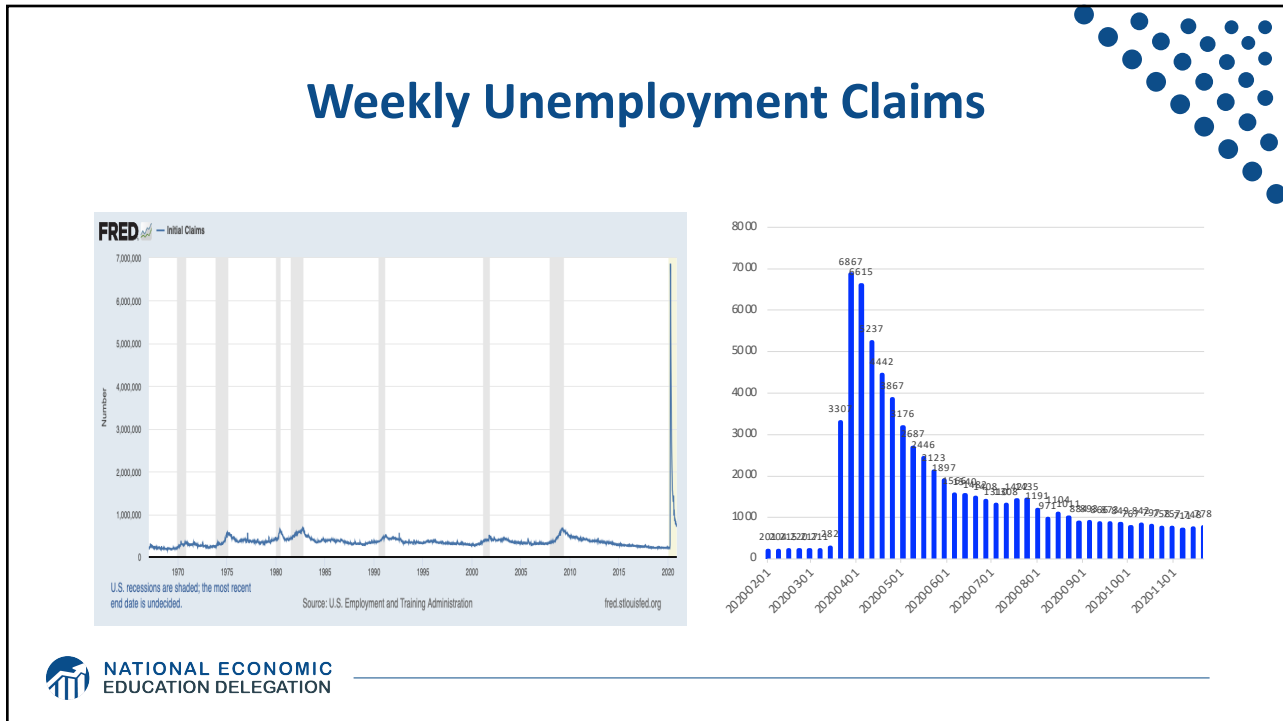
7



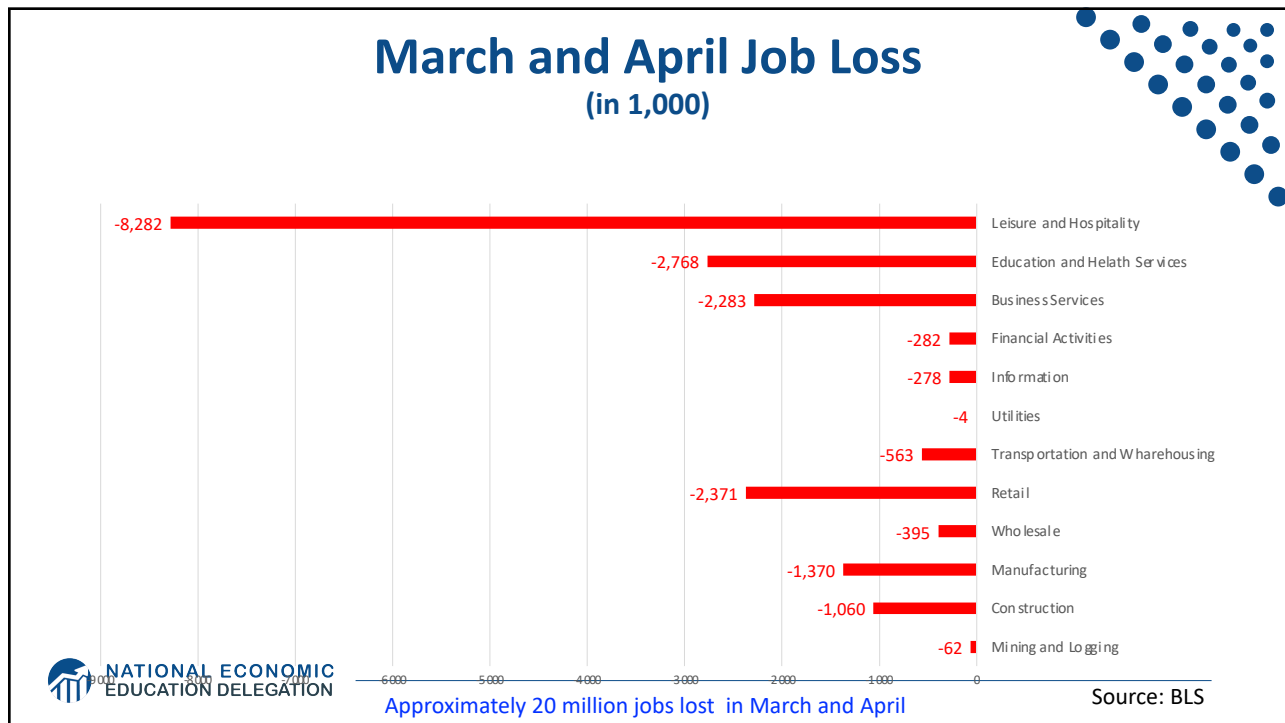
8



11



12



13

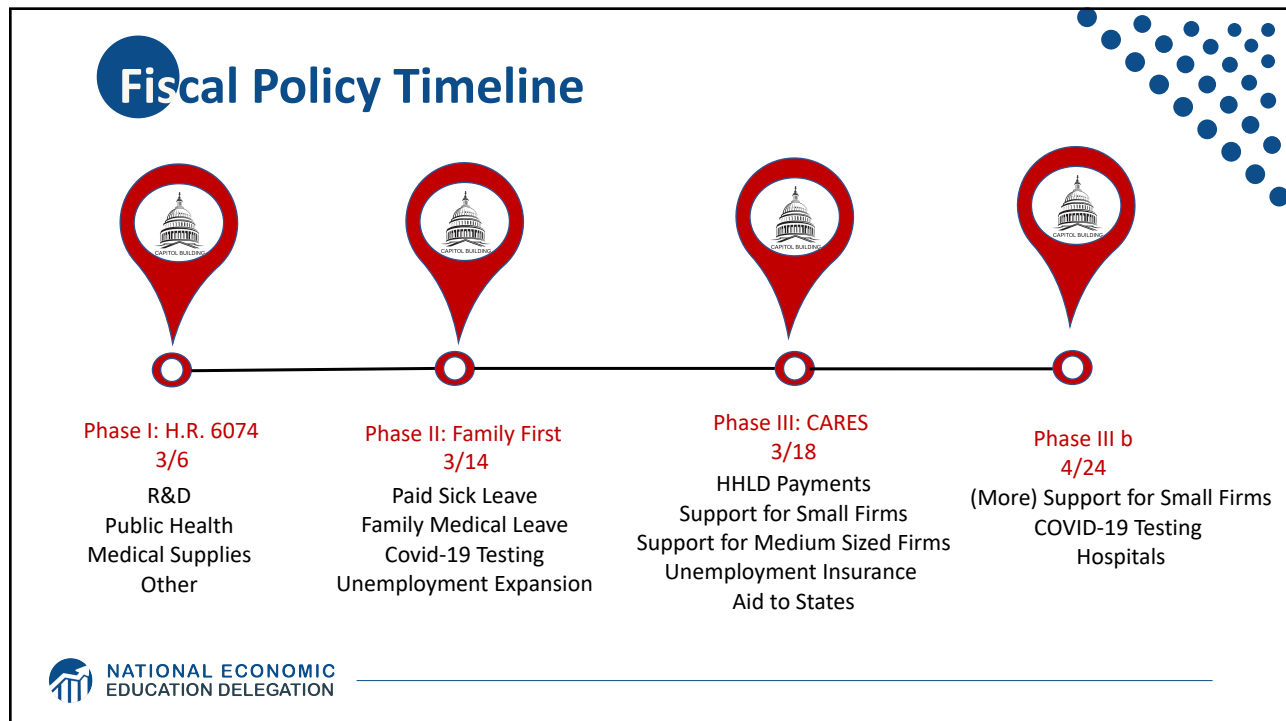
Government Response: Fiscal Response

- Respond to the impacted sector(s) – **health crisis**,
- Provide income support for the lower income and most vulnerable,
- Provide support to maintain employer - employee matches, and
- Provide support for the sectors that are most exposed to the shock.

NATIONAL ECONOMIC EDUCATION DELEGATION

14


14



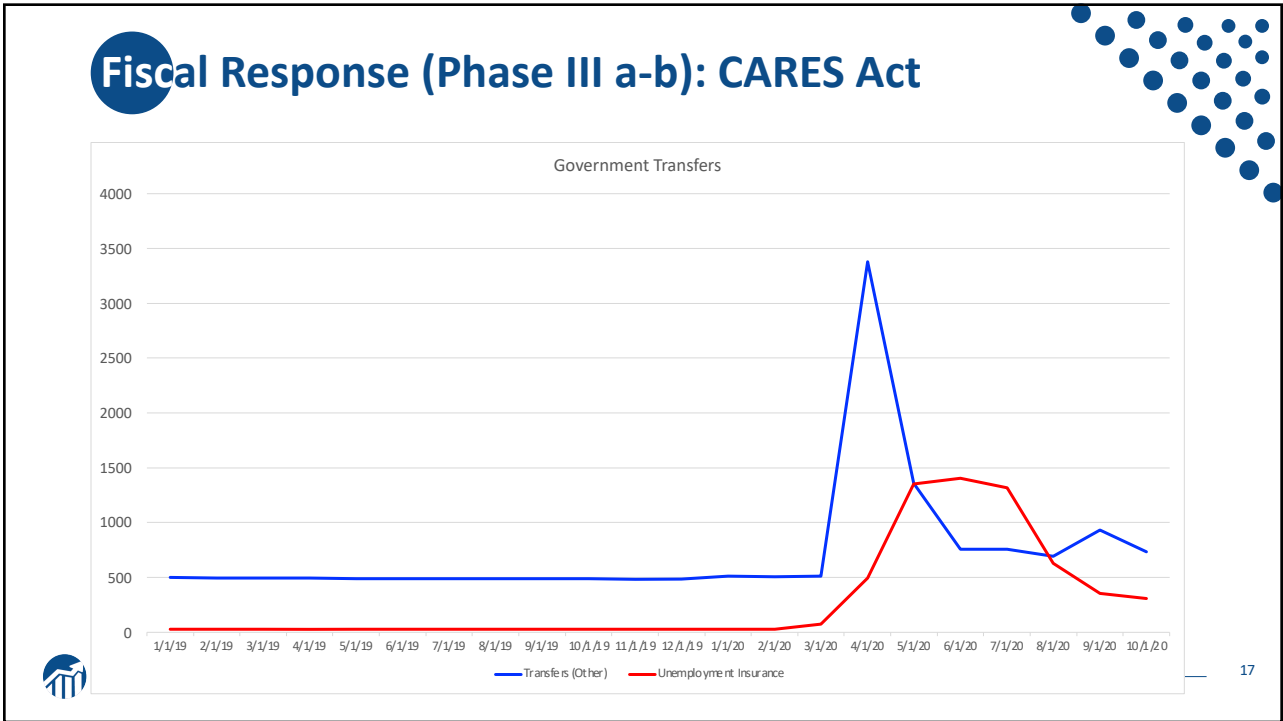
15

Fiscal Response (Phase III a-b): CARES Act

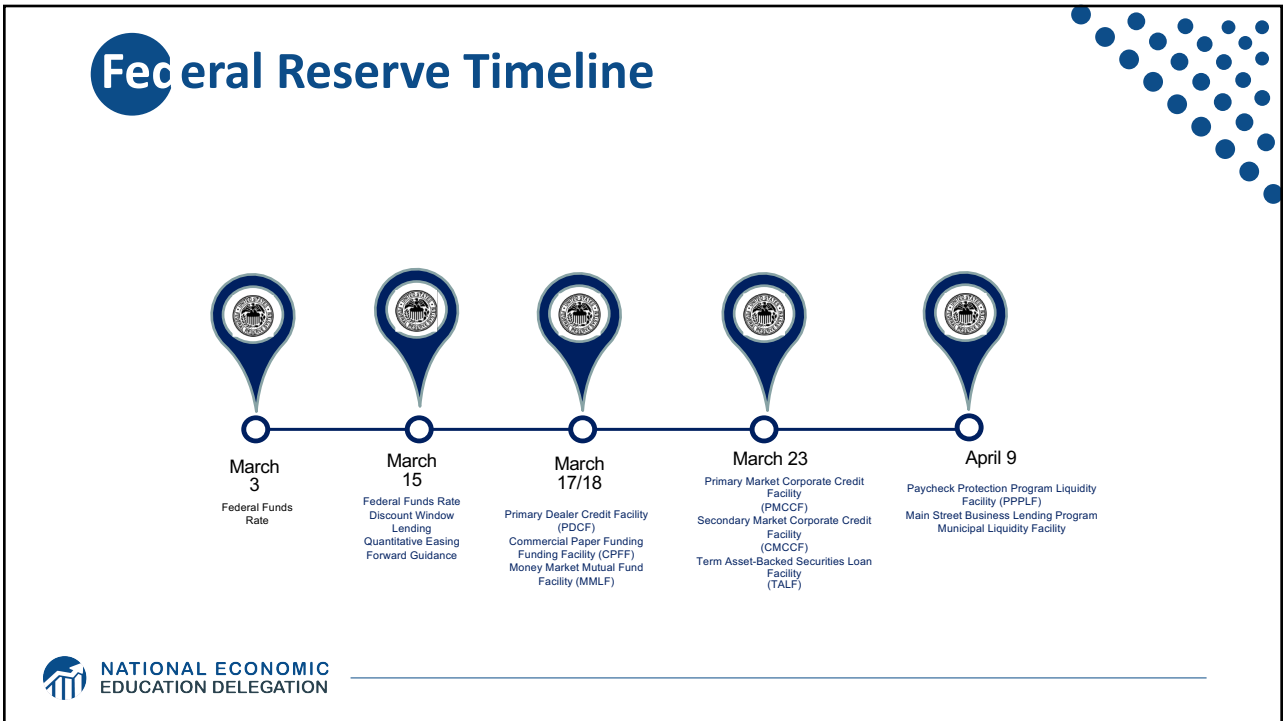
- **Direct payment to households \$1,200 for every adult and \$500 for every child.**
- **Small business loans (Paycheck Protection Program)-- \$350 billion**
 - <500 employees and designed to cover six (6) weeks of payroll.
- **Economic Stabilization Fund (Main Street Lending Program) – \$500bn**
 - for medium sized firms,
 - state and local municipalities, and
 - passenger and cargo air carriers, and firms maintaining national security.
- **Expand unemployment benefits (additional \$600/week)**

 NATIONAL ECONOMIC EDUCATION DELEGATION

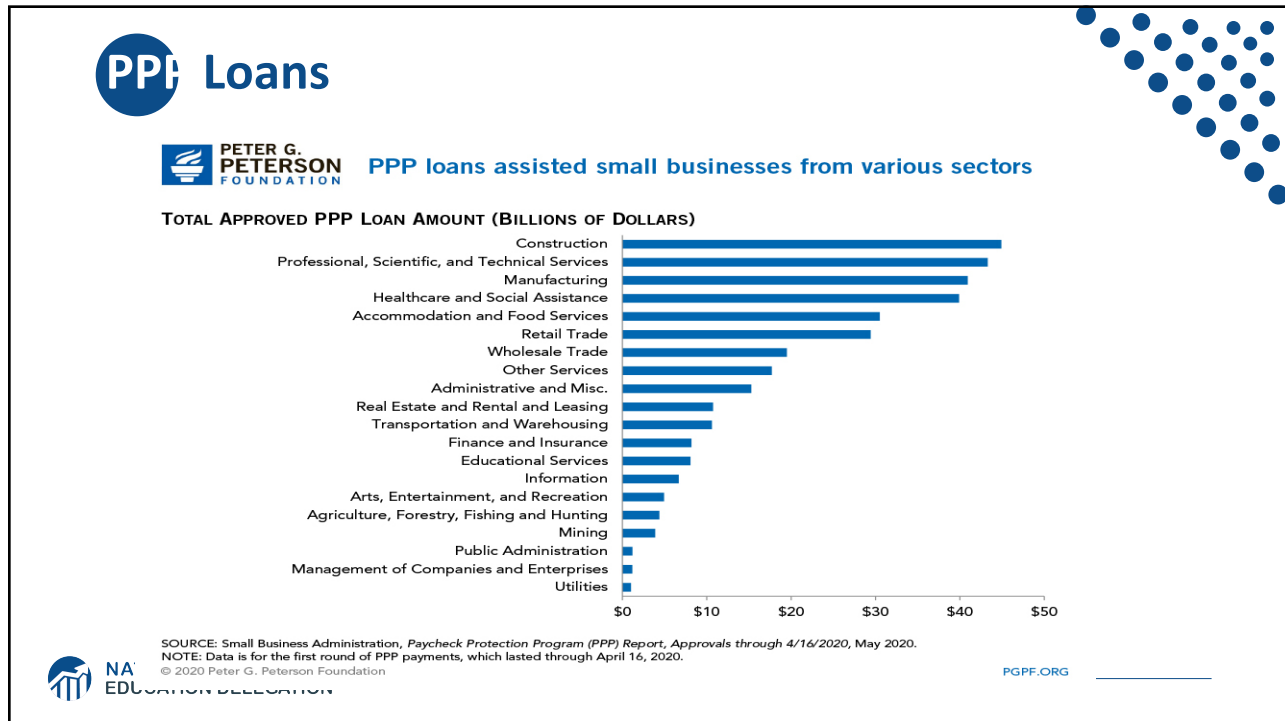
16



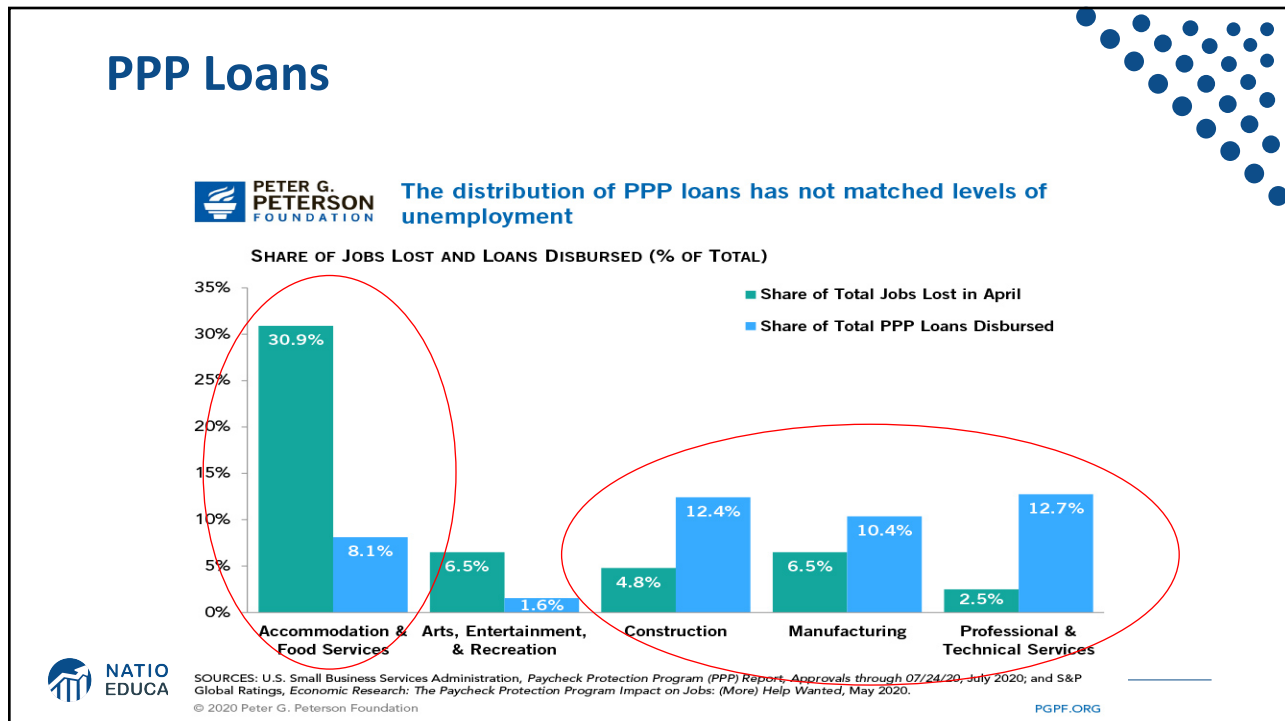
17



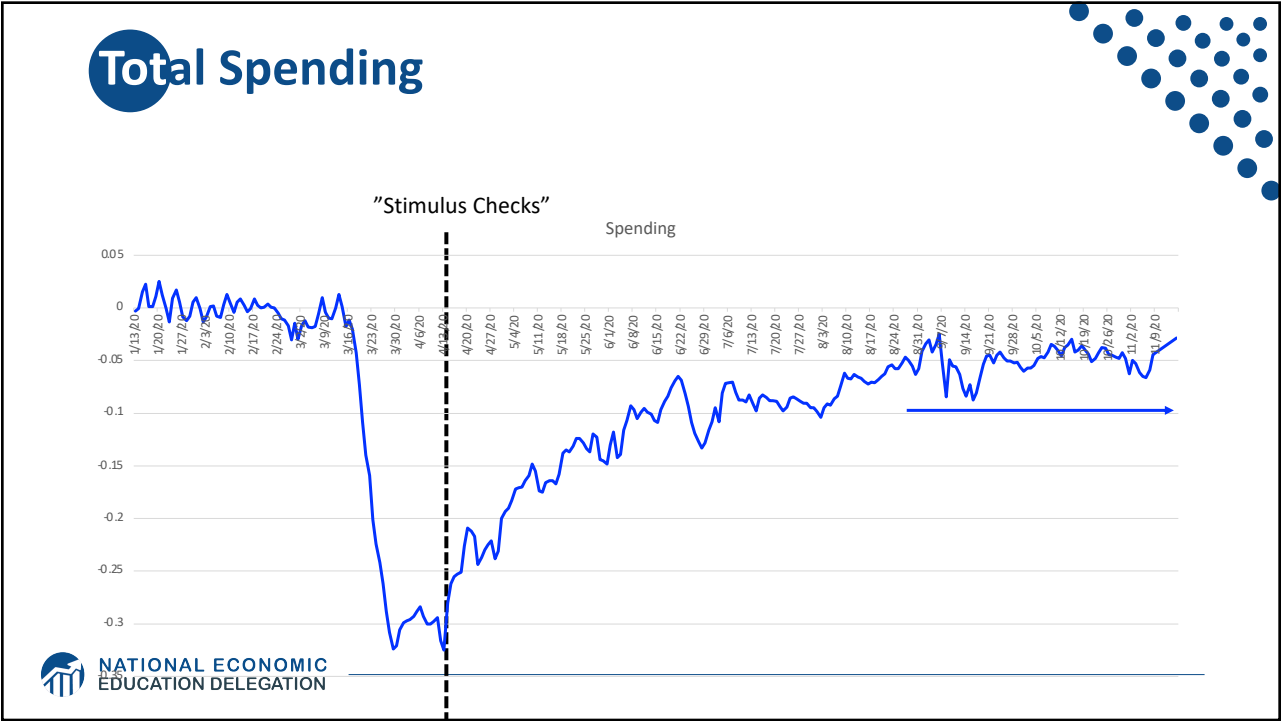
18



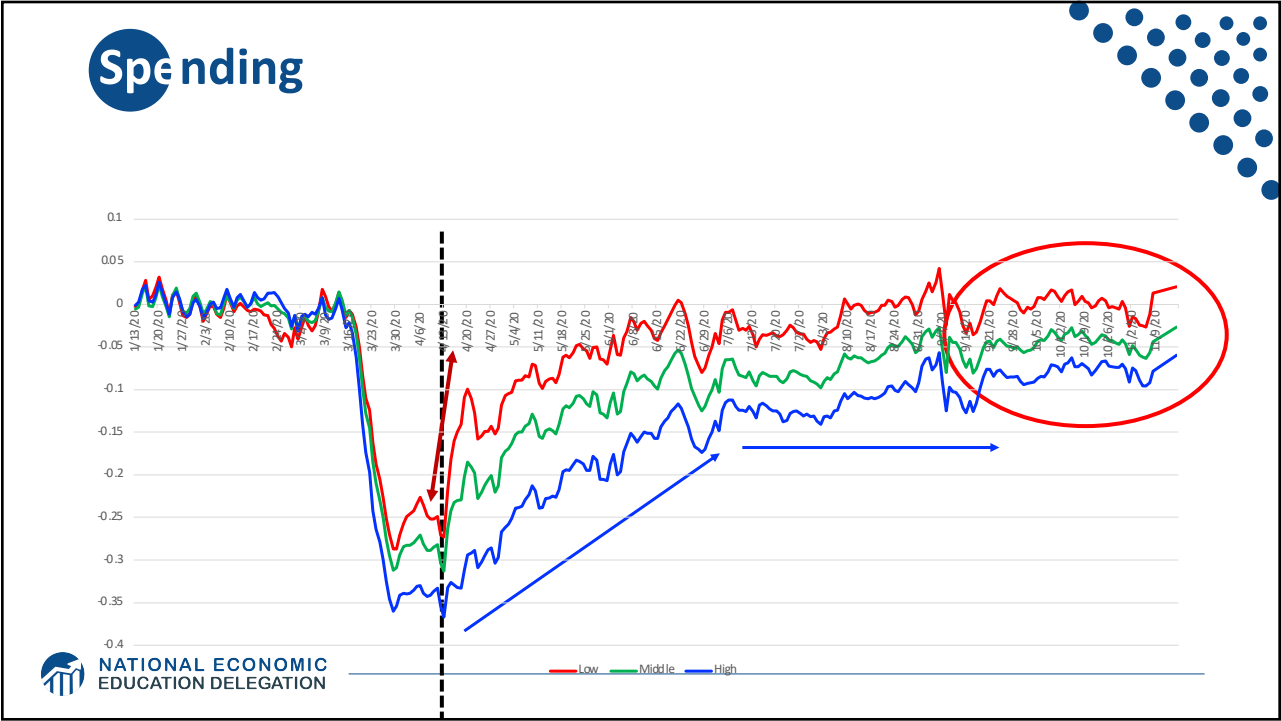
19



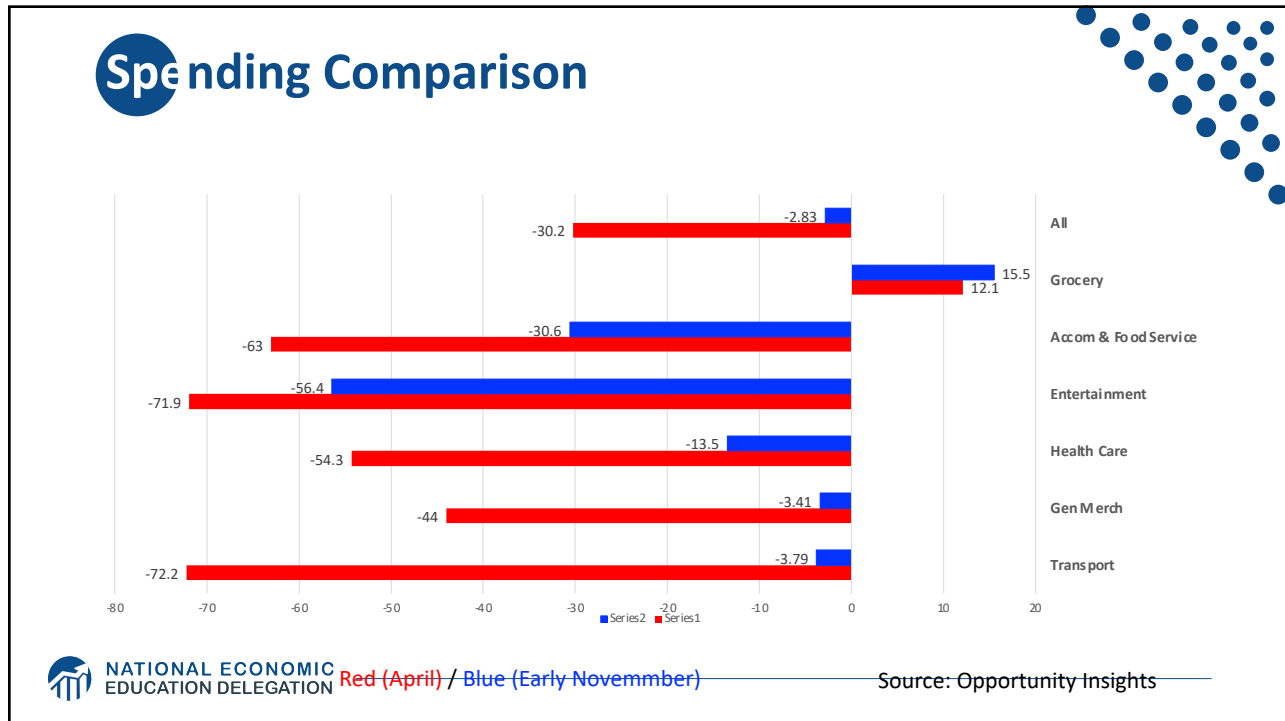
20



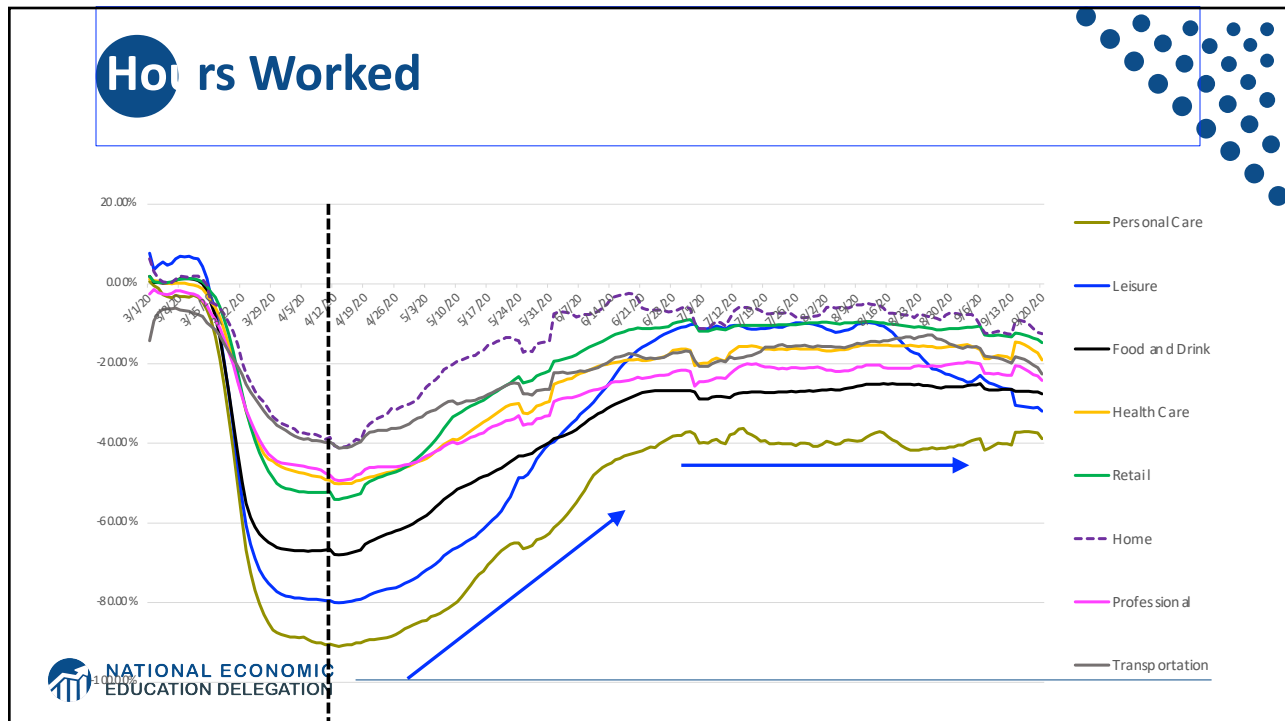
21



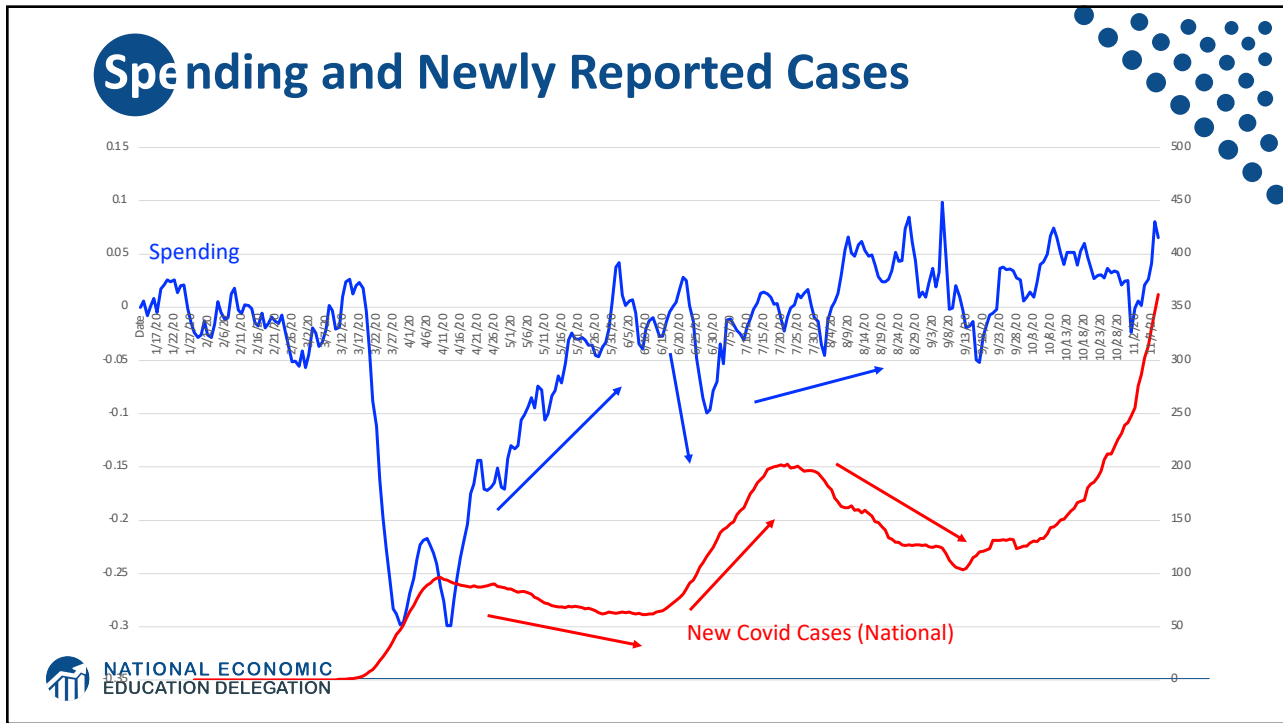
22



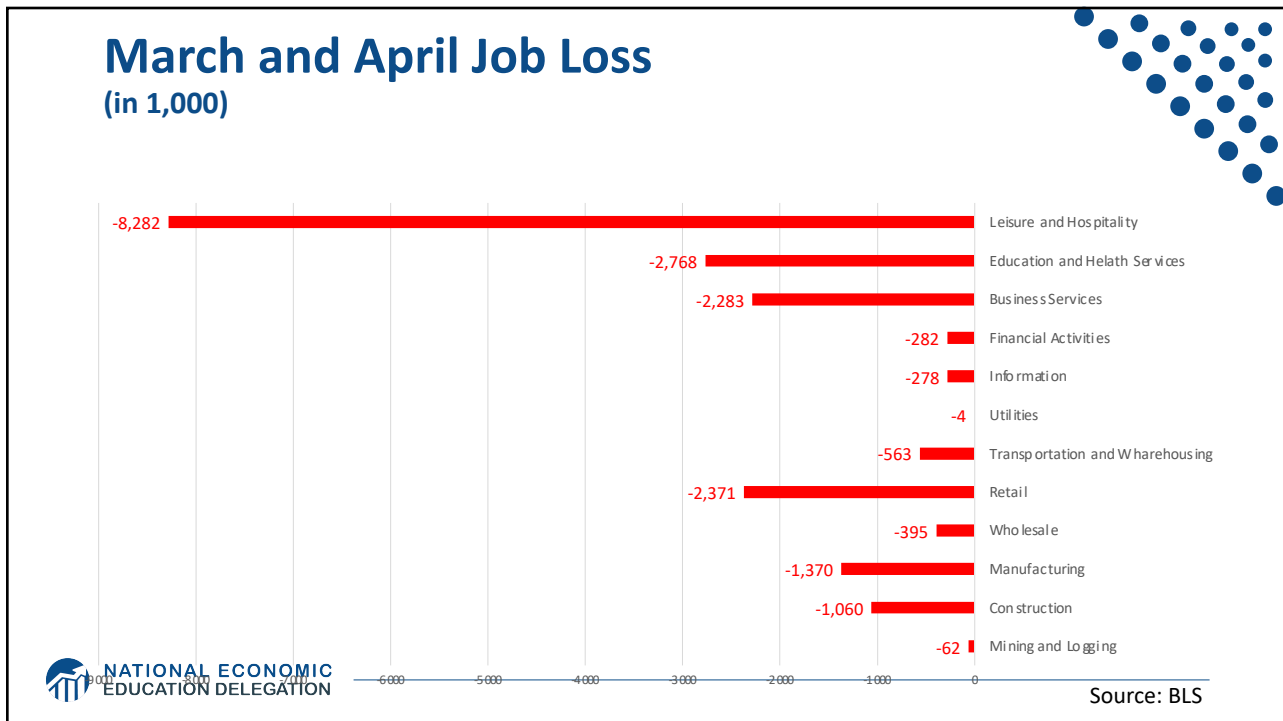
23



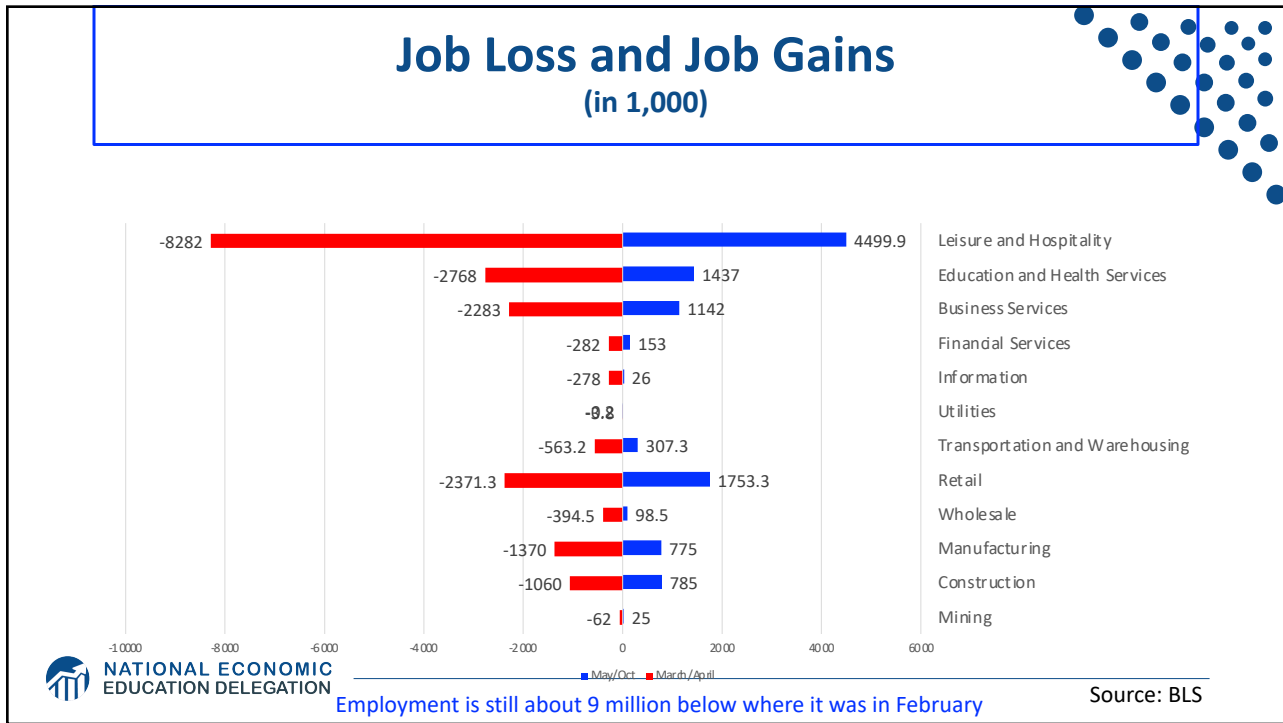
24



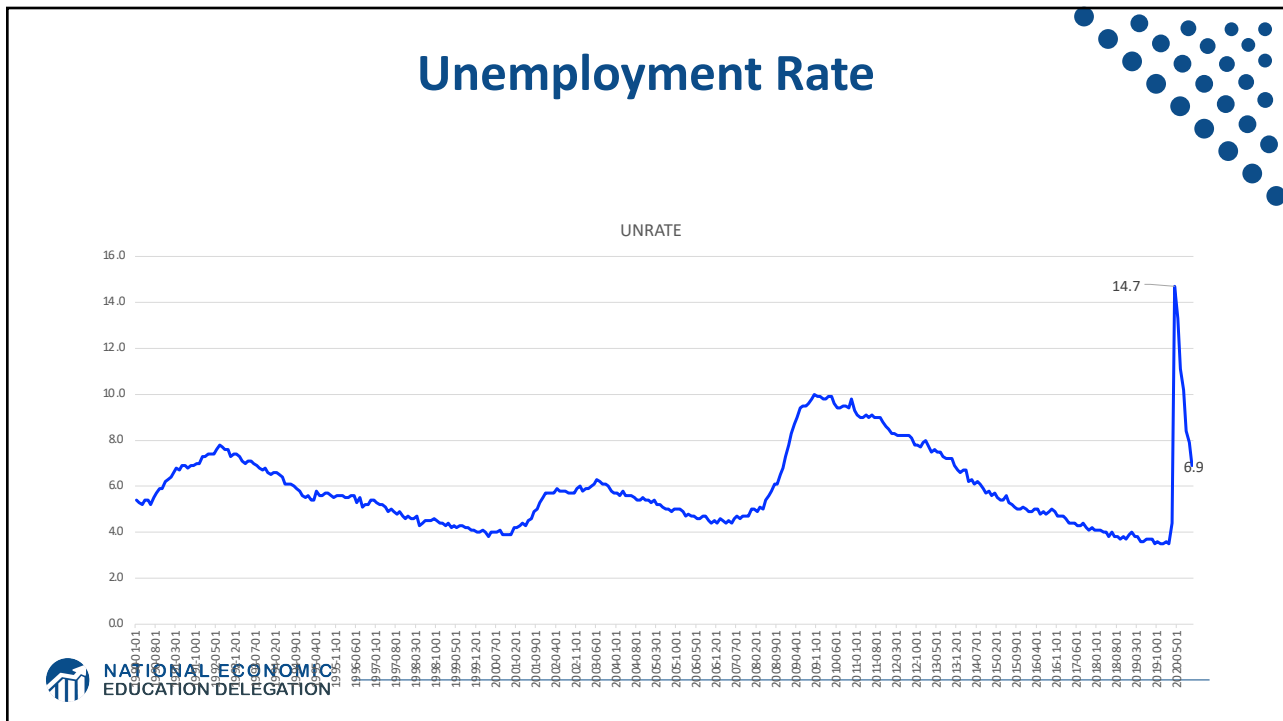
25



26

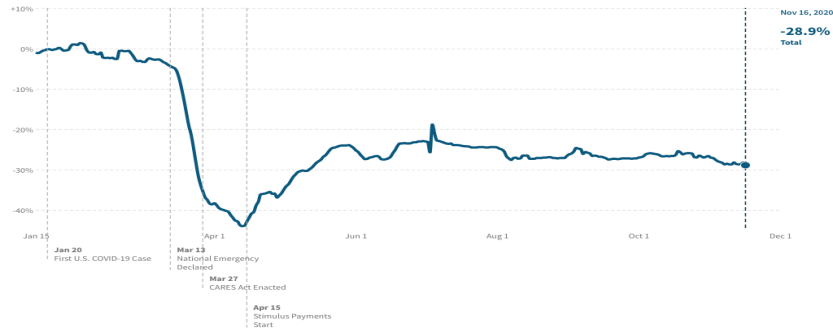


27



28

Small Business Openings

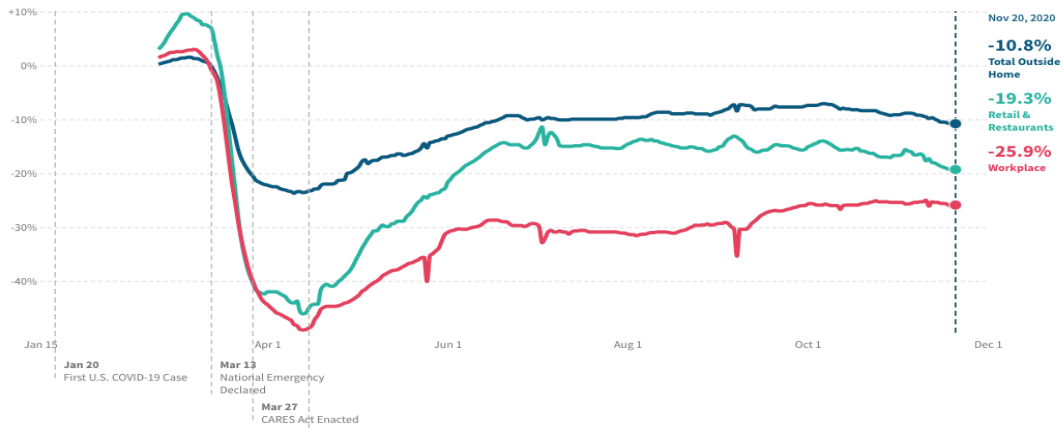


National



29

Time Outside of the Home



Opportunity: Insights

30

Next Fiscal Package: What is in it?

- \$600 (may soon be \$2,000) checks to individuals.
- \$300 additional unemployment benefits (through March)
- \$284 billion for paycheck protection program – loan forgiveness for keeping employment at existing levels.
- \$82 billion for schools and universities
- \$68 billion for vaccine distribution
- \$25 billion for rental assistance
- \$93 billion in other support

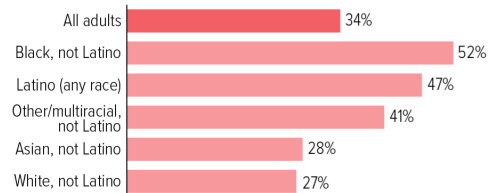
31

Outlook

- Additional Fiscal response is needed

1 in 3 Adults Had Trouble Paying for Usual Household Expenses in Last 7 Days

Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses



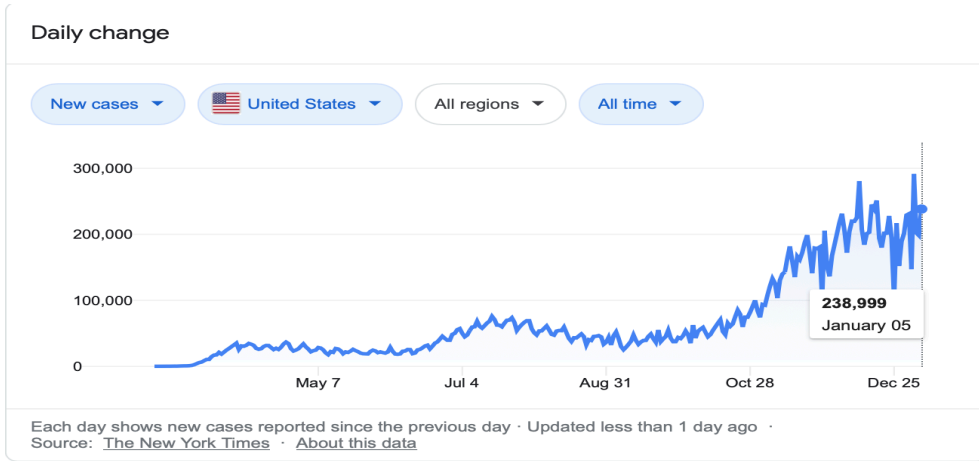
Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

Source: CBPP analysis of Census Bureau Household Pulse Survey tables for October 28 – November 9, 2020

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

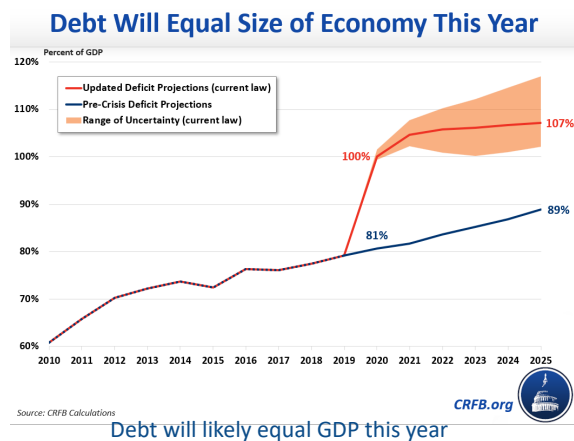
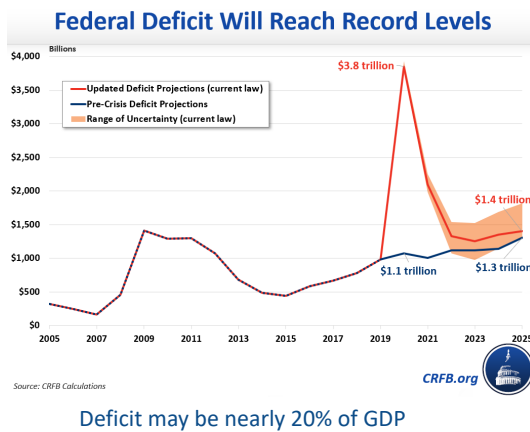
32

Of Course: The Economy in 2021 Depends



33

Looking Forward: Federal Budget Implications



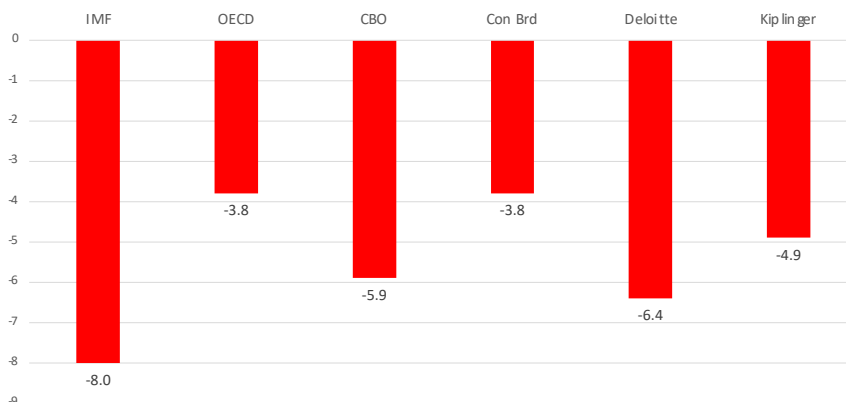
34

Looking Forward

- Most GDP projections indicate that GDP growth will likely be positive in 2021 and likely well above 2.0-2.5 percent range.
- The Fed Reserve’s range for growth is wide – I think this represents the Fed’s uncertainty about the health implications.
- While unemployment is expected to decline, the Fed expects unemployment to be above the longer run rate of 4.1 percent.
- The Fed thinks the economy is still structurally sound; otherwise, they would have increased the longer run rate of unemployment above 4.1 percent.

35

GDP Growth Projections for 2020



Most forecasts have expect positive real GDP growth

36

Investment Expenditures

- **Investment expenditures are composed of residential and non-residential spending.**
- **Residential spending refers to purchases of new homes.**
- **Non-residential spending refers to capital purchases and new inventory accumulation.**
 - Tools, machinery, new factories, commercial real estate.



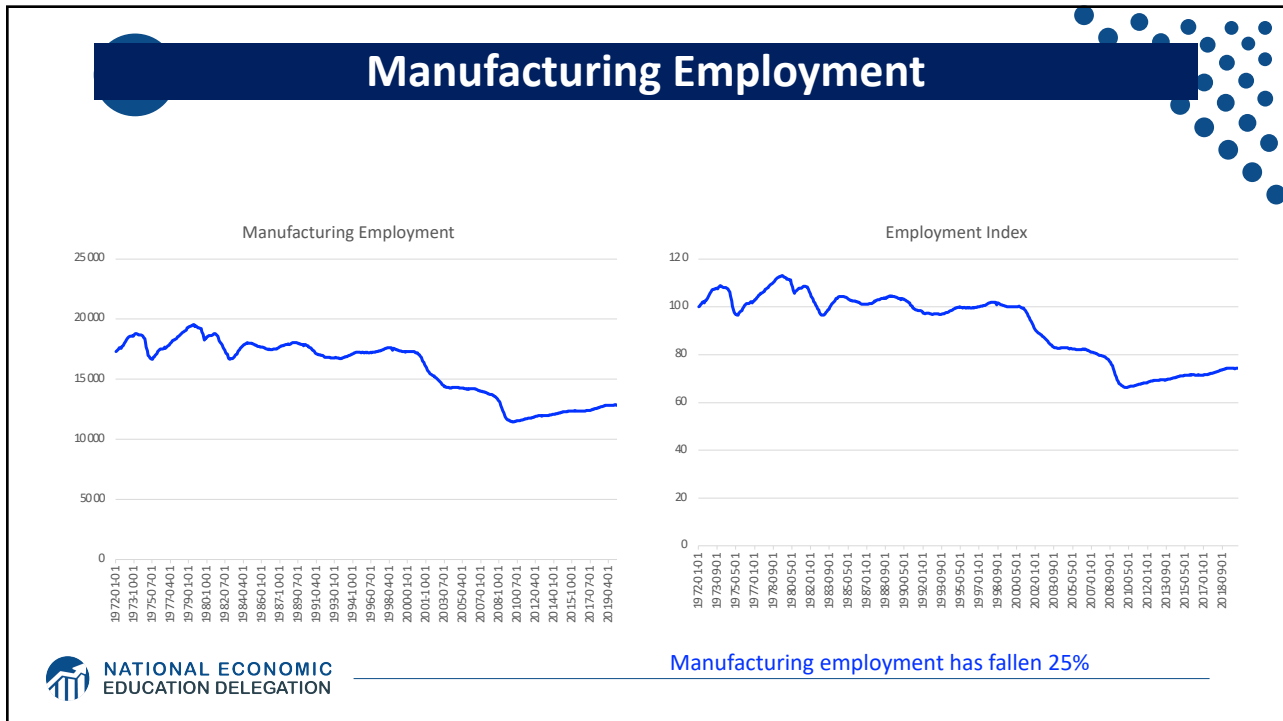
37

Conclusion

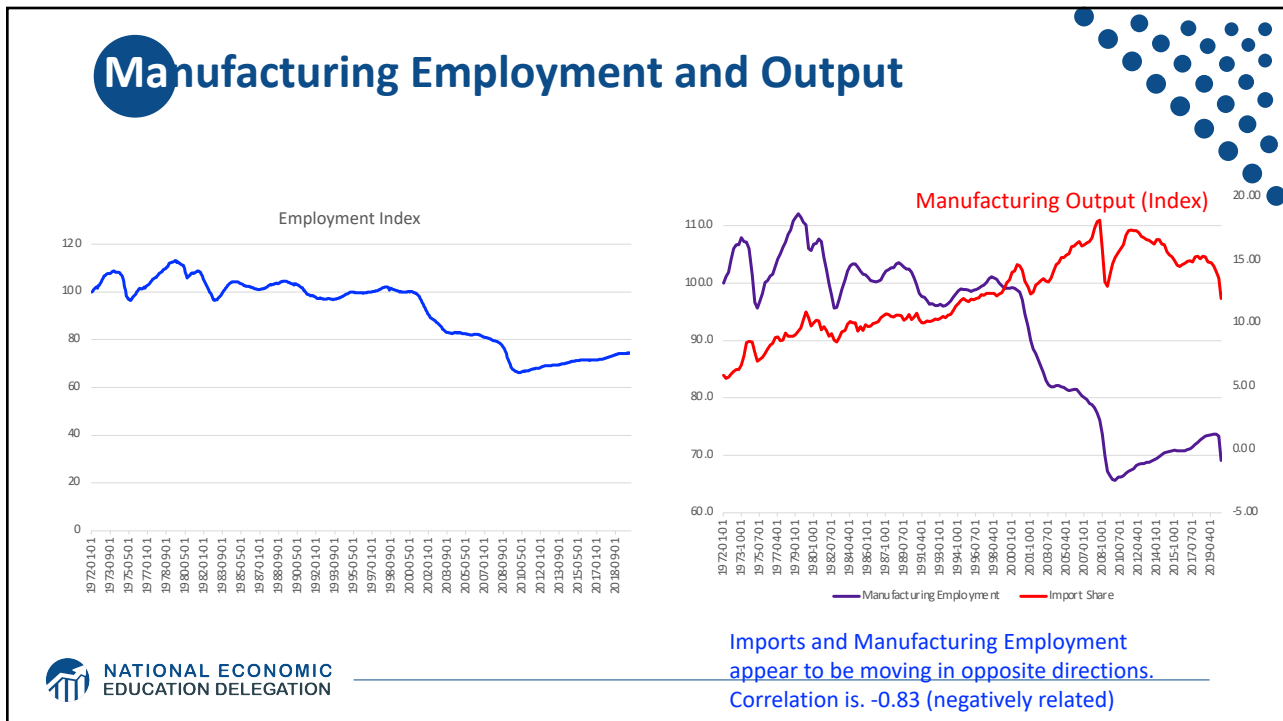
- **The economic recovery in 2021 depends crucially on**
 - The efficacy and the distribution of the vaccines
 - The willingness of the population to “continue” follow safety guidelines.
 - The ability of the fiscal response to provide some income support for households and support small businesses.
 - The ability of businesses and households to adapt
 - Resolution of political uncertainty



38

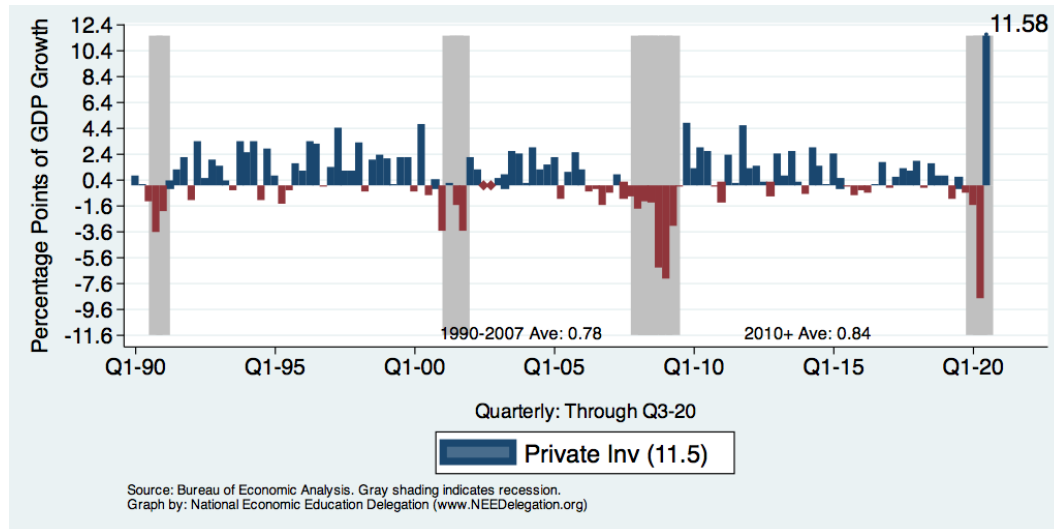


39



40

Contributions to GDP: Private Investment



NATIONAL ECONOMIC
EDUCATION DELEGATION

41

41

Investment Expenditures

- Investment expenditures are composed of residential and non-residential spending.
- Residential spending refers to purchases of new homes.
- Non-residential spending refers to capital purchases and new inventory accumulation.
 - Tools, machinery, new factories, commercial real estate.

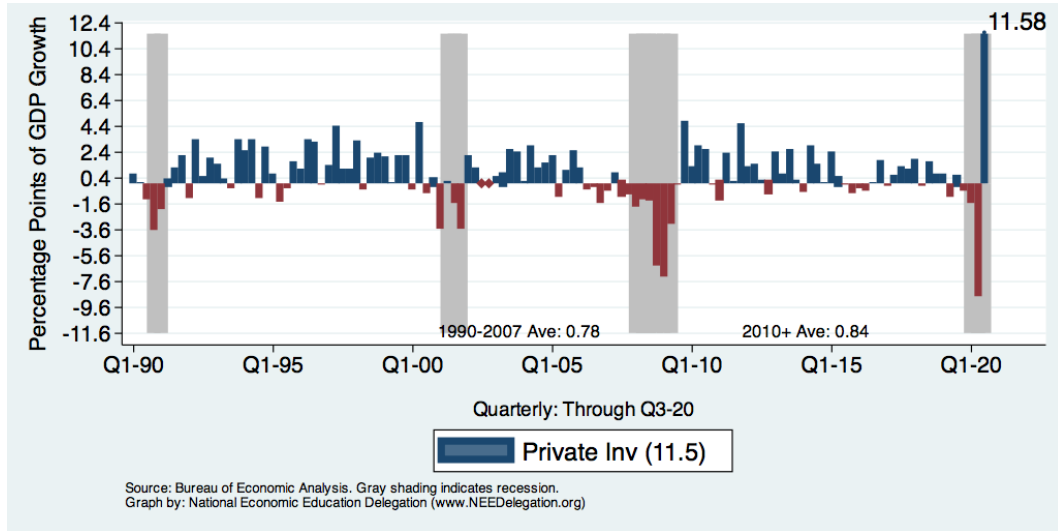


NATIONAL ECONOMIC
EDUCATION DELEGATION

42

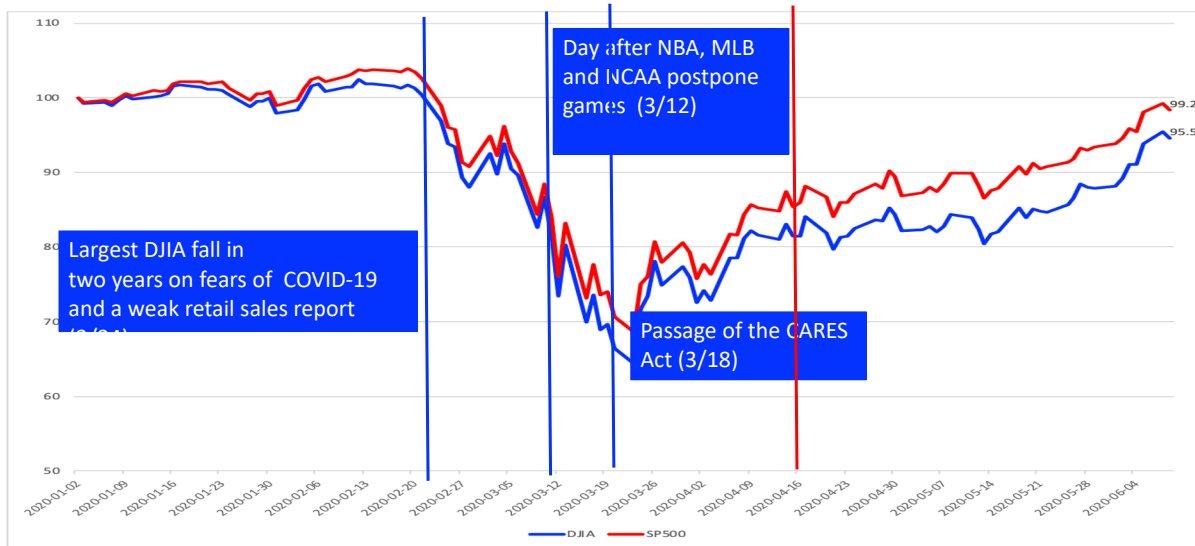
42

Contributions to GDP: Private Investment



43

Dow Jones and S&P 500



44