The Economic Outlook: A Surge and Then ... ?

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The global growth outlook is brighter

We are forecasting a stronger global recovery relative to our thinking last October because:

- Progress with vaccine development and supply has been faster than expected
- Fiscal support in the United States has been larger than expected

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


4/1/21
Prospects differ across countries because of different virus prevalence and vaccination rates

New Confirmed Cases per Million Over Past 7 Days
(numbers may be understated for countries with limited testing)

Vaccinations per Hundred People

Source: Our World In Data (as of March 30, or latest available data)

Note: Due to data availability, Euro Area refers to European Union data
Prospects also differ across countries because of different policy responses

There is a huge range in the amount of government funds going out the door, much through additional spending and some through lower taxes

In the United States, discretionary fiscal support since the pandemic began is more than 20% of GDP

In other advanced economies, fiscal stimulus has been smaller, and, in lower-income countries, stimulus has been smaller still

There are also big differences in the structure, timing, and targeting of the responses that are relevant to their influence on the economic recovery
Among the large advanced economies, the US is ahead

**Evolution of real GDP, 2018–2022 (index, 2019=100)**

**US**
- fiscal-powered surge coming soon

**Euro area**
- virus setbacks, but recovery will ramp up in second half of 2021

**Japan**
- slow vaccine progress and Olympic restrictions a drag

**UK**
- Brexit transition continues to weigh on growth

**Sources:** Consensus Forecasts for 2018–2020; PIIE for 2021–2022.
China leads the large emerging economies

Evolution of real GDP, 2018–2022 (index, 2019 = 100)

China
moving ahead strongly with global recovery

India
bouncing back but virus resurgence a risk

Russia
risks from fiscal consolidation

Brazil
virus severely straining health system and economy

A key question: how much impetus from the US fiscal packages?

The headline numbers are large but there are reasons to think the propensity to spend will be low:

- Surveys suggesting households would like to save funds, pay down debt
- Limited payback for some foregone services consumption; some durables consumption pulled forward last year
- Broad distribution of funds—not just households, not just those with traditionally high propensities
Timely indicators suggest a pickup in US economic growth is underway

FRB-NY Weekly Economic Index
Index, scaled to 4-quarter GDP growth rate

Daily US Consumer Confidence
Index

Source: Federal Reserve Bank of New York
Source: Morning Consult data intelligence company
The US consumer will lead, with a sharp recovery in spending on services as more people are vaccinated.

Consumption in February 2021 relative to January 2020

Source: US Bureau of Economic Analysis
Pandemic-constrained consumption and fiscal-supported income have yielded plenty of spending power.

US Personal Income and Consumer Spending

- Billions
- US Bureau of Economic Analysis; FRED

US Household Wealth

- Trillions of dollars
- Federal Reserve; FRED

Source: US Bureau of Economic Analysis; FRED
Source: Federal Reserve; FRED
The business sector is signaling confidence

Core Durable Goods Orders
Billions of dollars

New “High Propensity” Business Applications
3-month moving average

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

Note: Applications with a high propensity of turning into a business with a payroll
Source: US Census Bureau; FRED
Real US GDP growth should surge this year and then moderate.

**US Real GDP**
Chained 2012 Dollars (Trillions)

Source: US Bureau of Economic Analysis; FRED; author’s forecasts

**US Real GDP Growth**
Percent change, annual rate

Source: US Bureau of Economic Analysis; FRED; author’s forecasts

Note: Dashed segment is forecast

The labor market will normalize more slowly than GDP

Job growth will be very strong this year, but with payrolls roughly 12 million short of their pre-pandemic trend, the labor market will take time to recover.

Okun’s Law summarizes the historically typical relationship between GDP growth and unemployment, which are linked through productivity.

However, unusual factors are bearing on productivity now:

- The service sectors that will show the strongest growth this year have lower productivity than the economy as a whole.
- But the likely exit of weaker businesses and some substitution of capital for labor will boost productivity.
Payrolls are forecast to grow 700,000 per month over the rest of 2021 and 300,000 per month in 2022.
Inflation is likely to rise somewhat on a sustained basis

Base effects will elevate inflation considerably but temporarily in coming months.

However, a more general pickup is underway because of supply constraints and the very rapid pace of GDP growth ("speed effects").
Inflation expectations appear to remain mostly anchored

Survey-based Inflation Expectations
Percent

Market-based Inflation Expectations
Percent

Source: Federal Reserve Bank of New York Survey of Consumer Expectations

Source: Federal Reserve Bank of St. Louis
Under the baseline projections, the federal funds rate will stay at zero until 2023

As long as inflation stays below 2½ percent, inflation expectations remain generally anchored, and the unemployment rate is above its pre-pandemic low, the Fed is unlikely to raise the funds rate this year or next.

However, the Fed may well reduce the pace of large-scale asset purchases next year.

Source: Federal Reserve; FRED; author's forecast
The strength of inflationary pressures over the next few years is especially uncertain

There is no historical analog to the combination of forces the economy is facing.

However, if inflation picks up on a sustained basis by much more than in this baseline forecast, the Federal Reserve will raise the funds rate—and longer-term interest rates may rise further and asset prices may decline.

The Fed’s current wait-and-see approach is fairly robust to different scenarios, but a hard landing cannot be ruled out.
How will households fare in the post-pandemic US economy?

We will continue to see a “K-shaped” recovery

For some households, continued employment during the recession, government stimulus payments, and accumulation of savings will enable them to move forward strongly when the pandemic is behind us

For other households, sustained unemployment, childcare burdens, poor schooling, rental arrears, and other factors will hinder their post-pandemic prospects
Lower-wage workers have borne the brunt of job losses

Job losses have been especially acute in some services sectors that typically employ large numbers of low-wage workers.

Source: Earnin, Intuit, Kronos, Paychex via Tracktherecovery.org
Job prospects for lower-wage workers are improving, but there will be lingering weakness

The disruptions endured by many businesses, and especially those in some of the services sectors, are going to be hard to overcome, slowing the hiring of lower-wage workers in coming months.

Job Postings for Workers with Minimal Education
Percent change since January 2020
Not seasonally adjusted

Source: Burning Glass Technologies via Tracktherecovery.org
Moreover, some jobs will never be recreated because of automation and other sources of efficiency gains.

Share of Firms Automating (or Planning to Automate) to Reduce Reliance on Labor

- Small firms: 31%
- Large firms: 56%

Share of Firms Expecting Low-Skill Workers to Be Affected by the Automation*

- Small firms: 81%
- Large firms: 81%

*Includes firms reporting that automation will mostly affect low-skill workers and those reporting that automation will affect low-skill and high-skill workers.

Source: Duke University, FRB Richmond and FRB Atlanta, The CFO Survey
Women’s labor force participation rates may stay lower

Female labor force participation for the age group most likely to have young children has shown little recovery from its decline in the early part of the pandemic.

Taking care of kids may have led to earnings and career setbacks that will be difficult to recoup.
Labor force participation rates for older workers may also remain lower.

The labor force participation rate of workers age 55 and older moved in line with that for younger workers early in the pandemic, but has since dropped.

Source: US Department of Labor
But their lower participation may partly reflect good news for them (if not for potential output)

In contrast to the experience in the last recession, the wealth of households in the age range in which most retirements occur has increased sharply.

Gains in 401(k) balances (as well as other saving in 2020) may be enabling some households to retire sooner with adequate resources.

![Chart: Aggregate Wealth for Households Ages 55-69](chart.png)

Source: Federal Reserve Distributional Financial Accounts
Some households will be hurt in other ways

In the last cycle, wages of lower-paid workers fell behind other wages in the recession and did not recover much of the lost relative ground.

The national moratorium on evictions from rental properties will expire in June.

Estimates suggest as many as 10-15 million households owe thousands of dollars in back rent; funding provided in the recent fiscal packages to help those households (via grants to states) may or may not be used effectively.

Evidence suggests that the obstacles to remote learning have been greater for children in disadvantaged households.
### Addendum: Real GDP Growth Rates

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<tr>
<th>Real GDP Growth (Y/Y)</th>
<th>2020</th>
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