PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

The Economic Outlook:
A Surge and Then … ?

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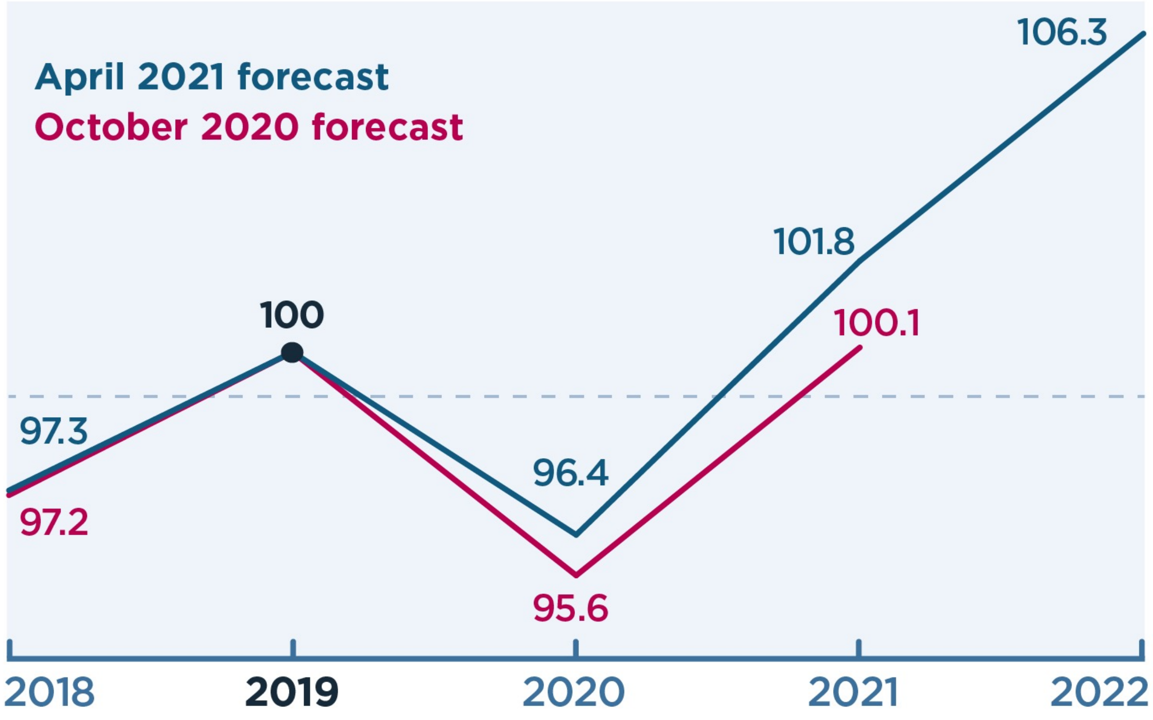
The global growth outlook is brighter

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



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

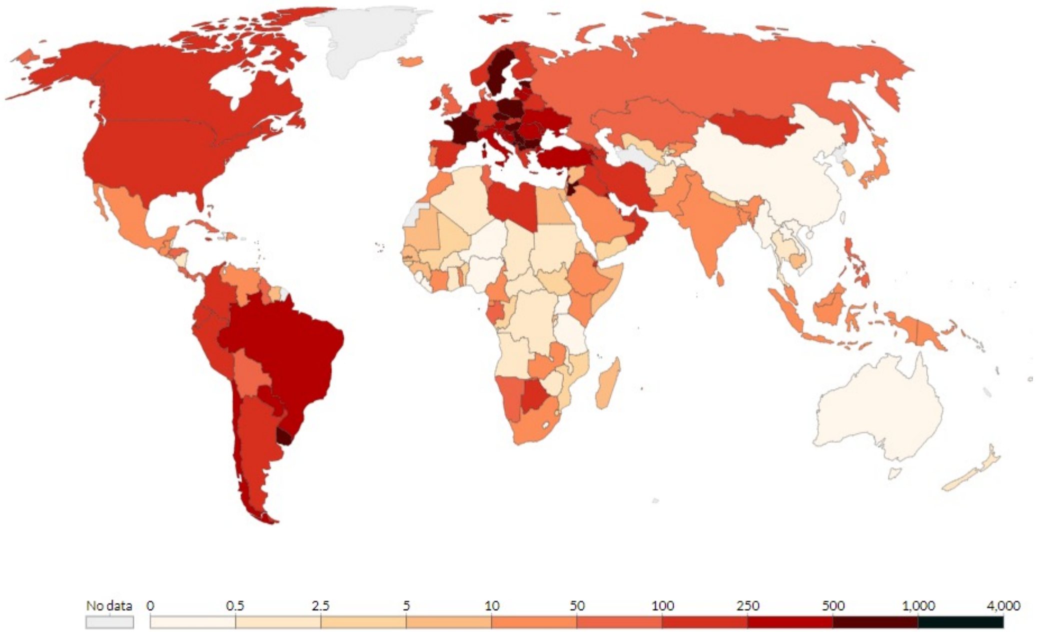
Sources: Consensus Forecasts for 2018–2020; PIIE for 2021–2022.

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

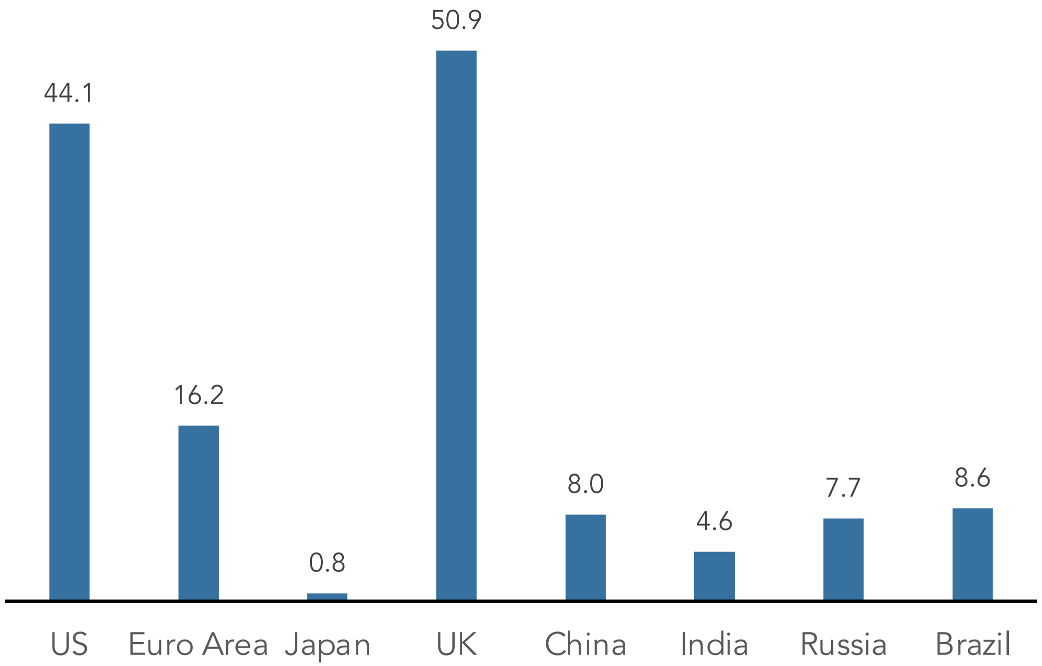
Prospects differ across countries because of different virus prevalence and vaccination rates

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



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

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

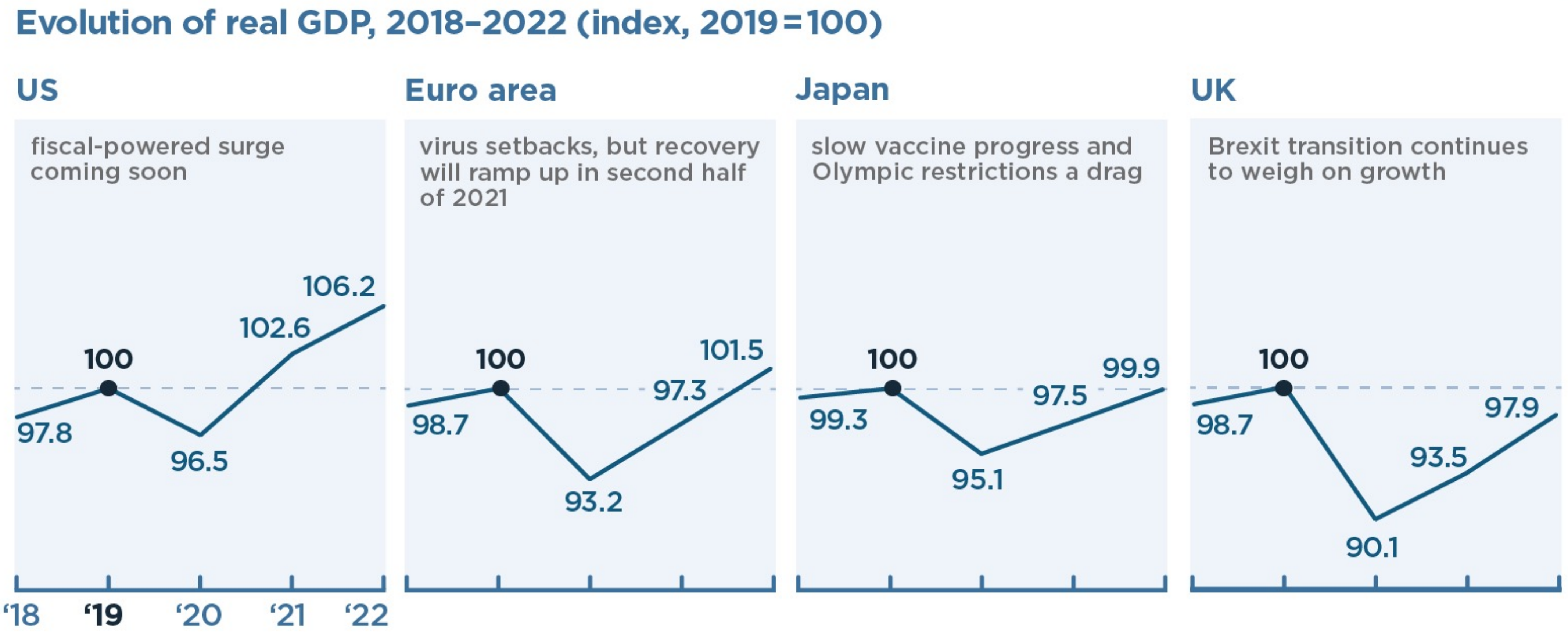
There is a huge range in the amount of government funds going out the door, much through additional spending and some through lower taxes

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

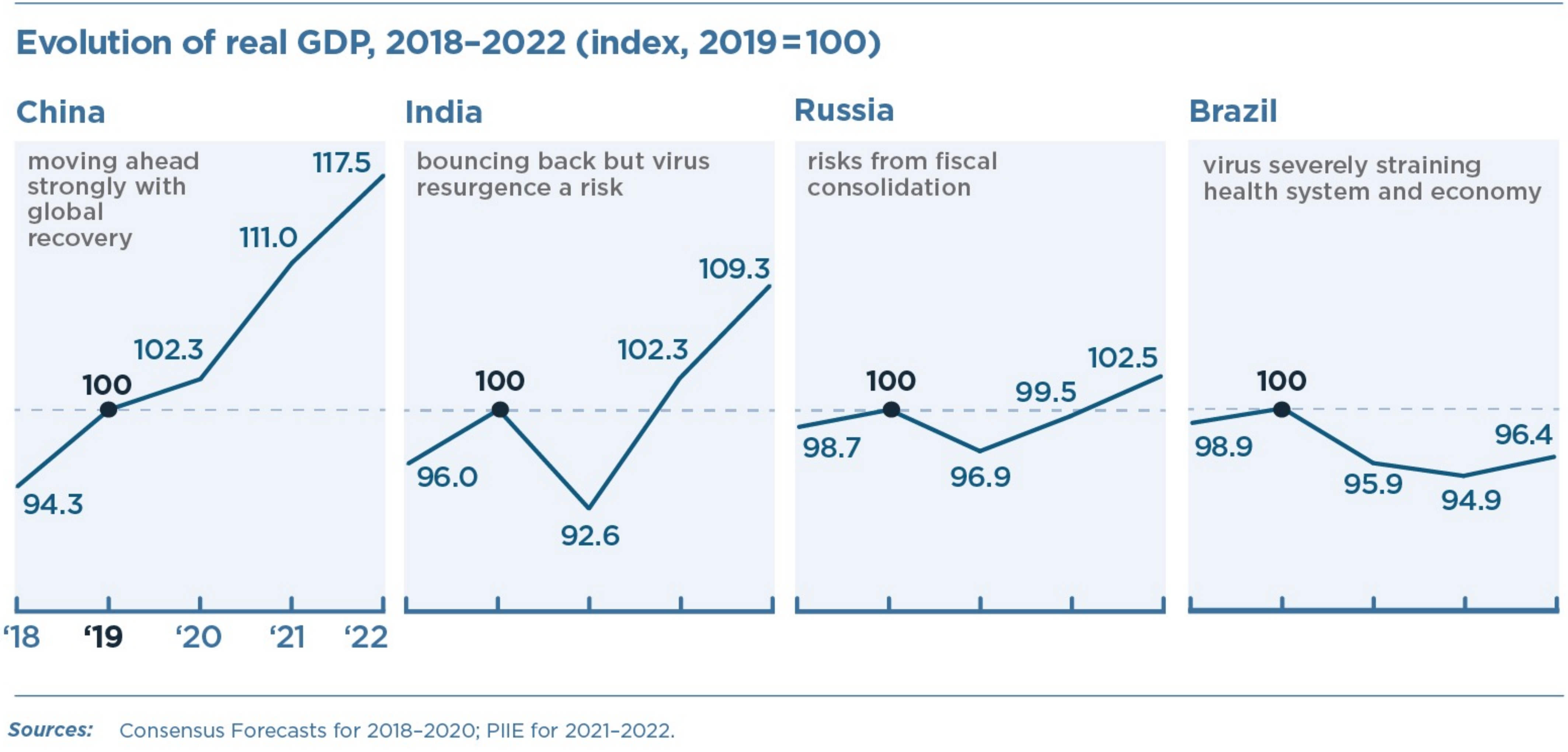
There are also big differences in the structure, timing, and targeting of the responses that are relevant to their influence on the economic recovery

Among the large advanced economies, the US is ahead



Sources: Consensus Forecasts for 2018–2020; PIIE for 2021–2022.

China leads the large emerging economies

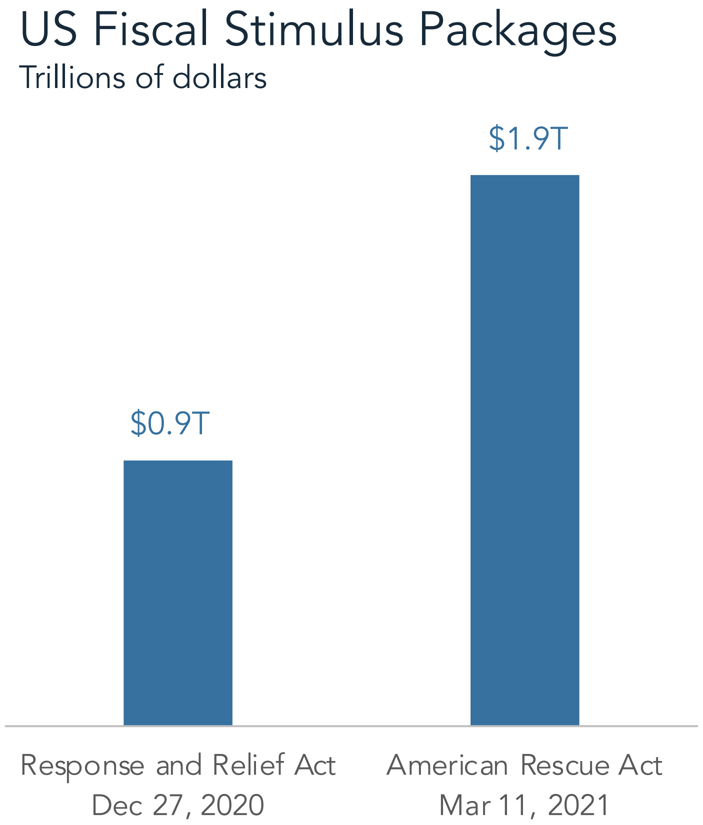


21-2022

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

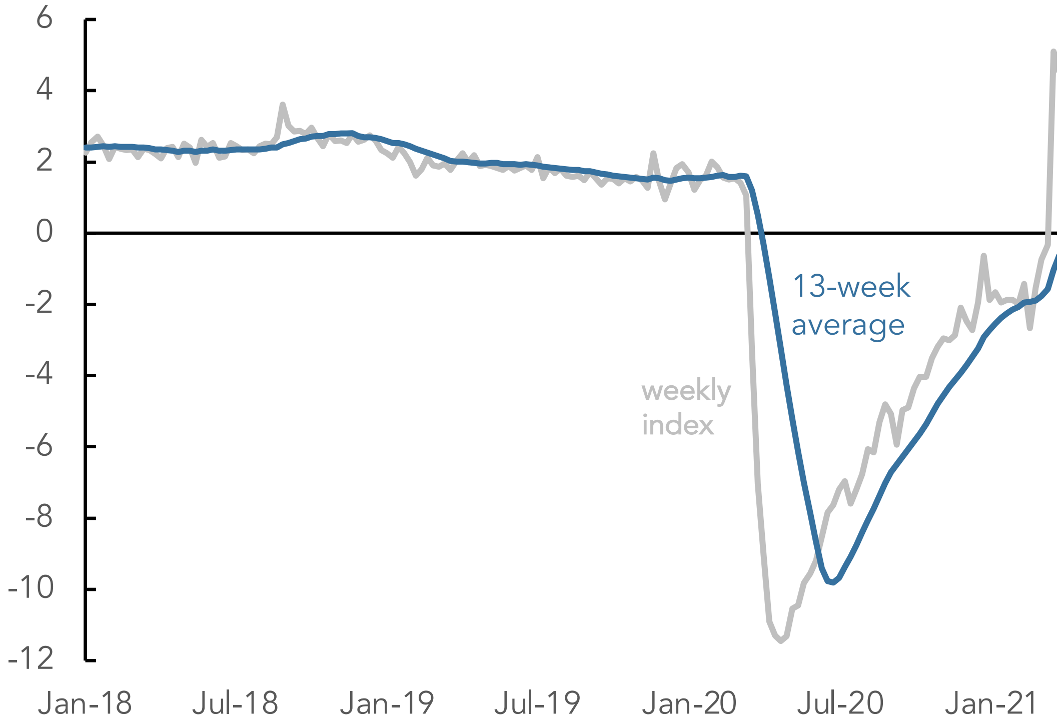


Source: Committee for a Responsible Federal Budget

Timely indicators suggest a pickup in US economic growth is underway

FRB-NY Weekly Economic Index

Index, scaled to 4-quarter GDP growth rate



Source: Federal Reserve Bank of New York

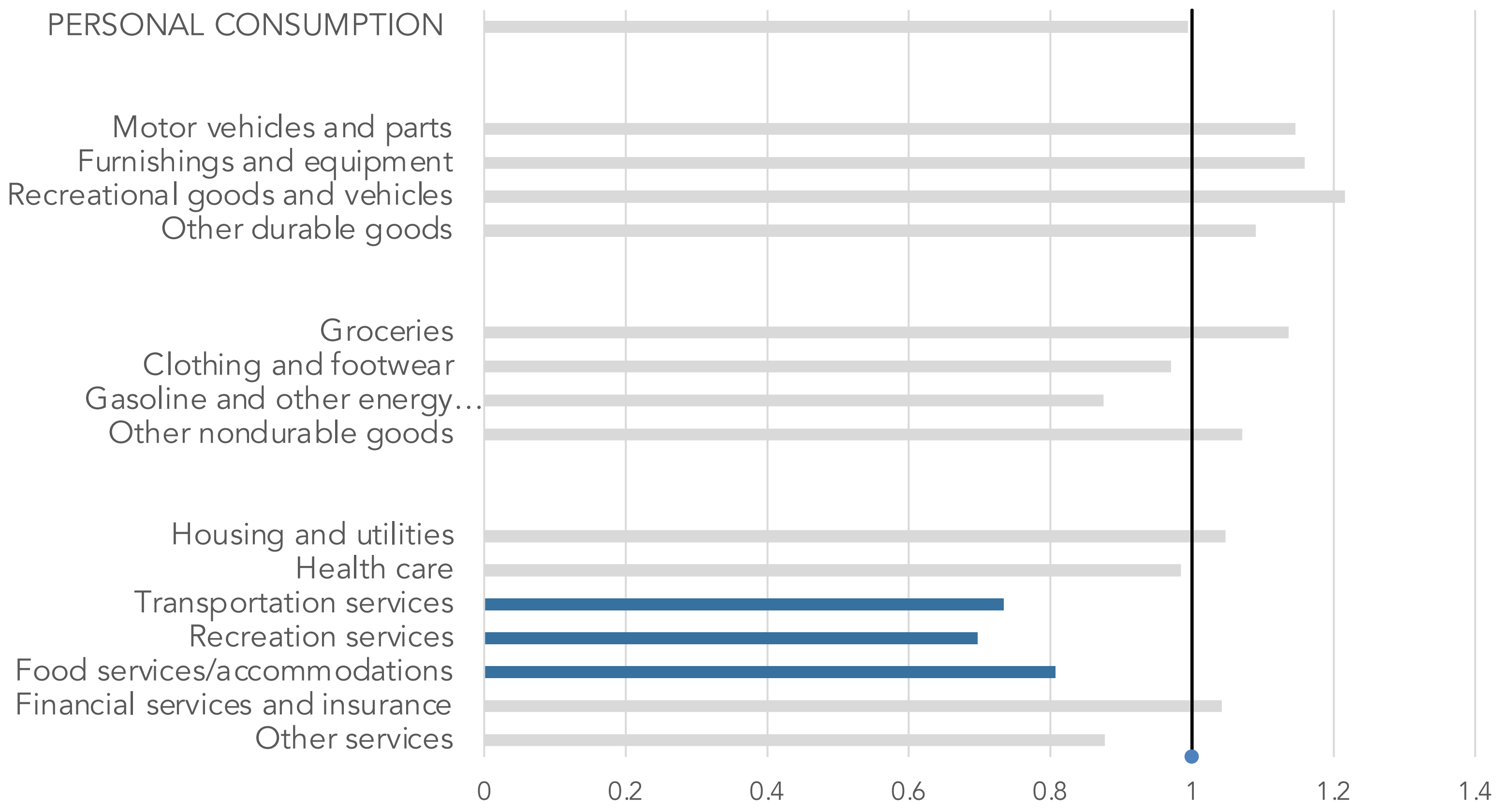
Daily US Consumer Confidence

Index

Source: Morning Consult data intelligence company

The US consumer will lead, with a sharp recovery in spending on services as more people are vaccinated

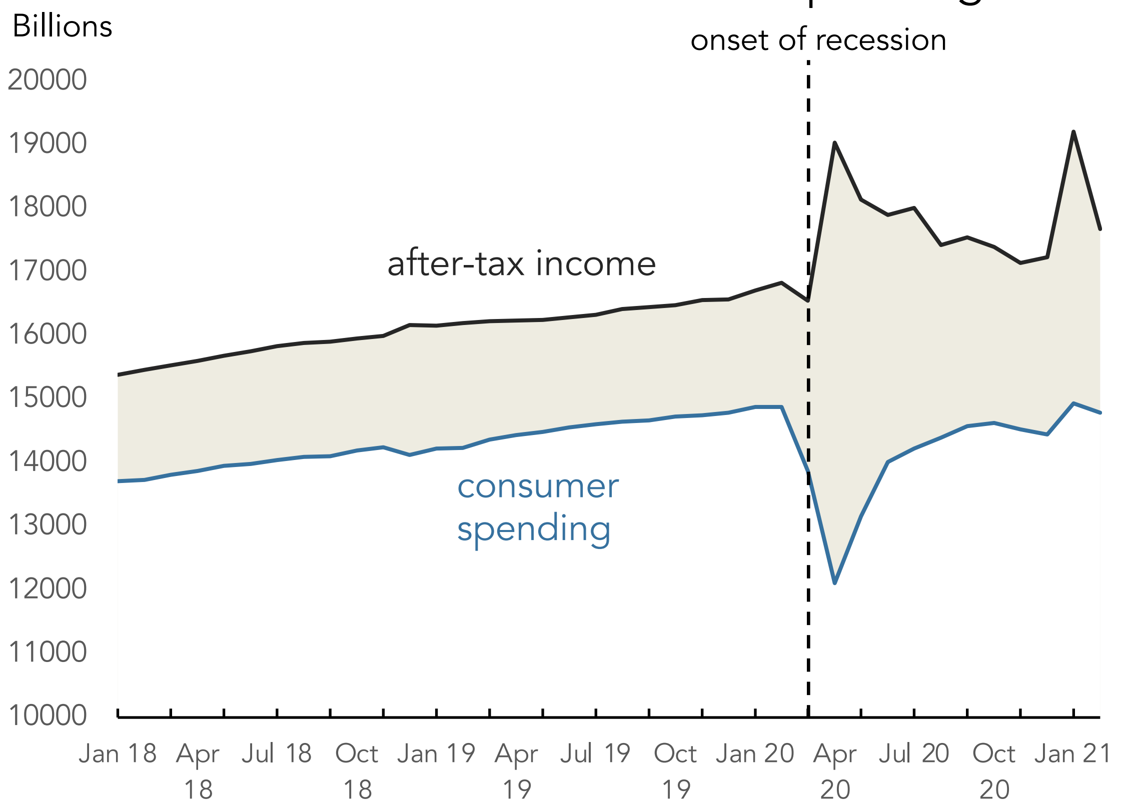
Consumption in February 2021 relative to January 2020



Source: US Bureau of Economic Analysis

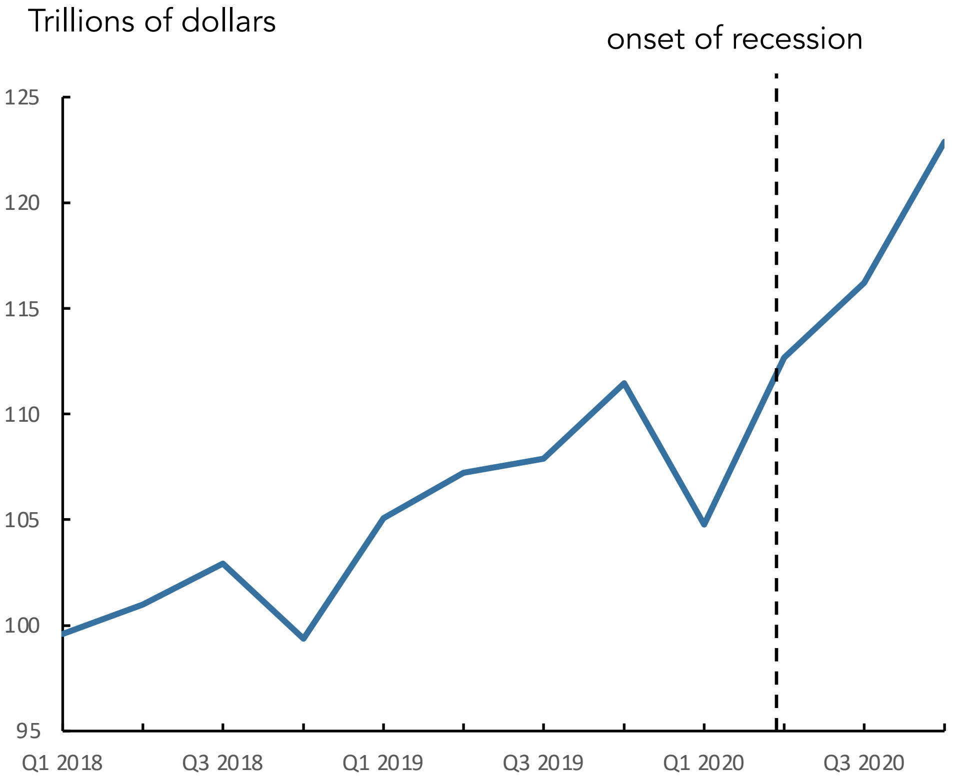
Pandemic-constrained consumption and fiscal-supported income have yielded plenty of spending power

US Personal Income and Consumer Spending



Source: US Bureau of Economic Analysis; FRED

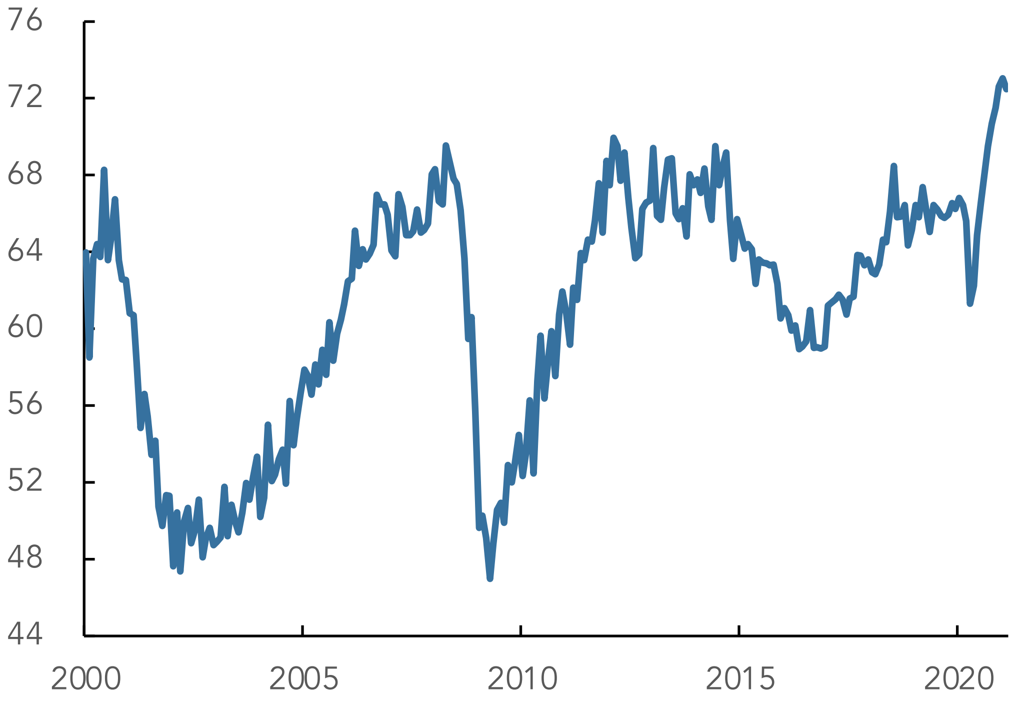
US Household Wealth



Source: Federal Reserve; FRED

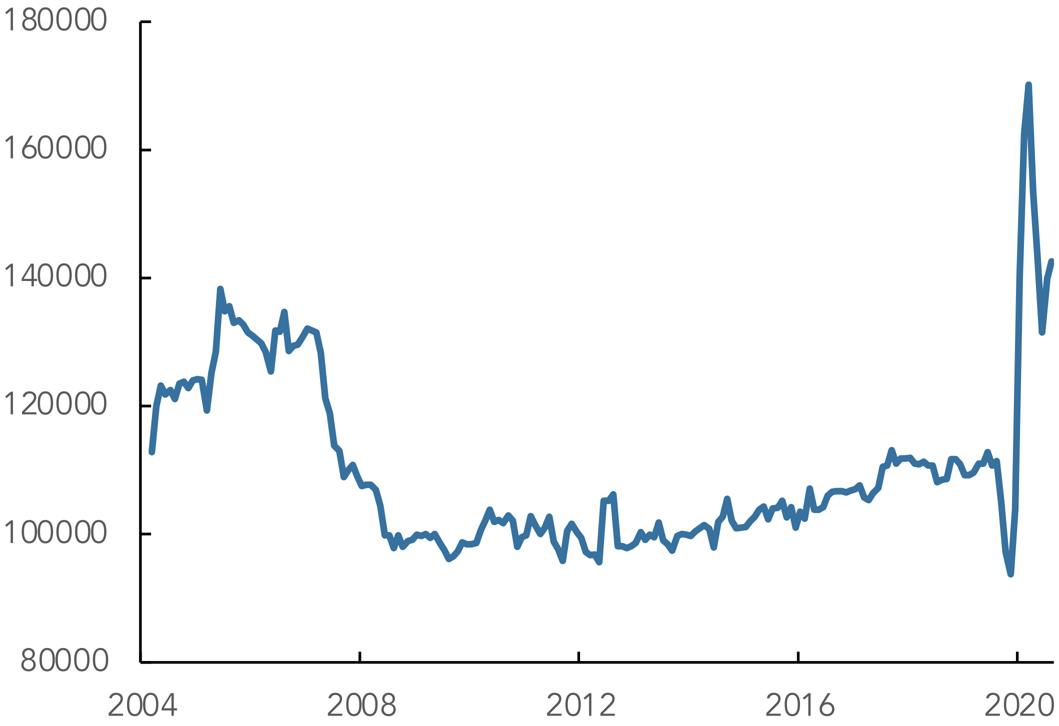
The business sector is signaling confidence

Core Durable Goods Orders
Billions of dollars



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

New "High Propensity" Business Applications
3-month moving average

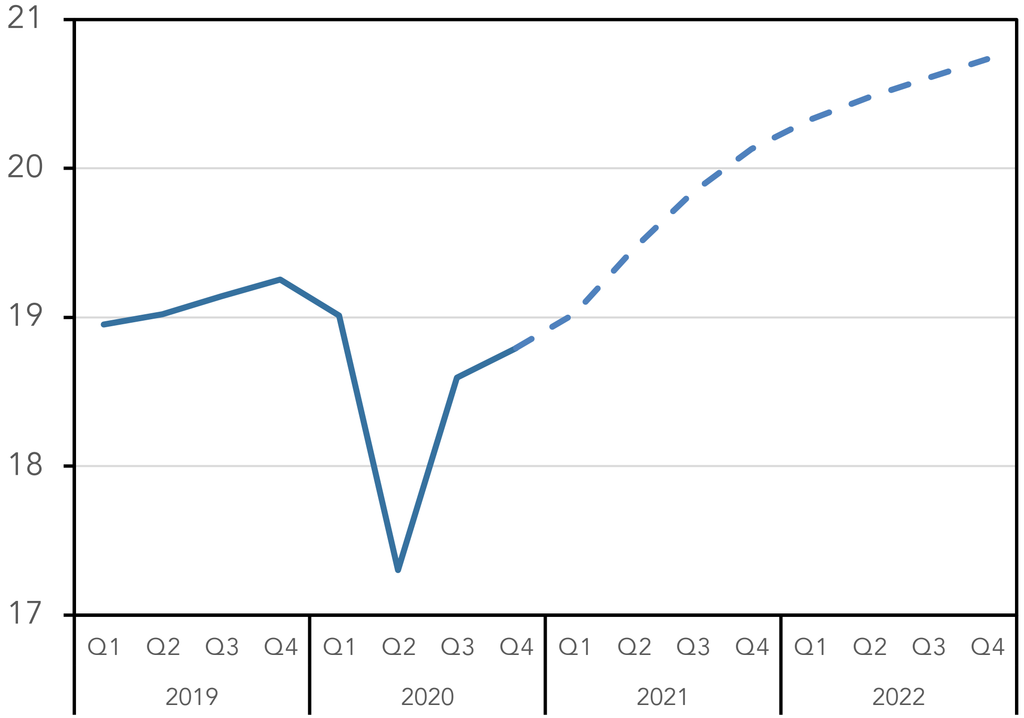


Note: Applications with a high propensity of turning into a business with a payroll
Source: US Census Bureau; FRED

Real US GDP growth should surge this year and then moderate

US Real GDP

Chained 2012 Dollars (Trillions)

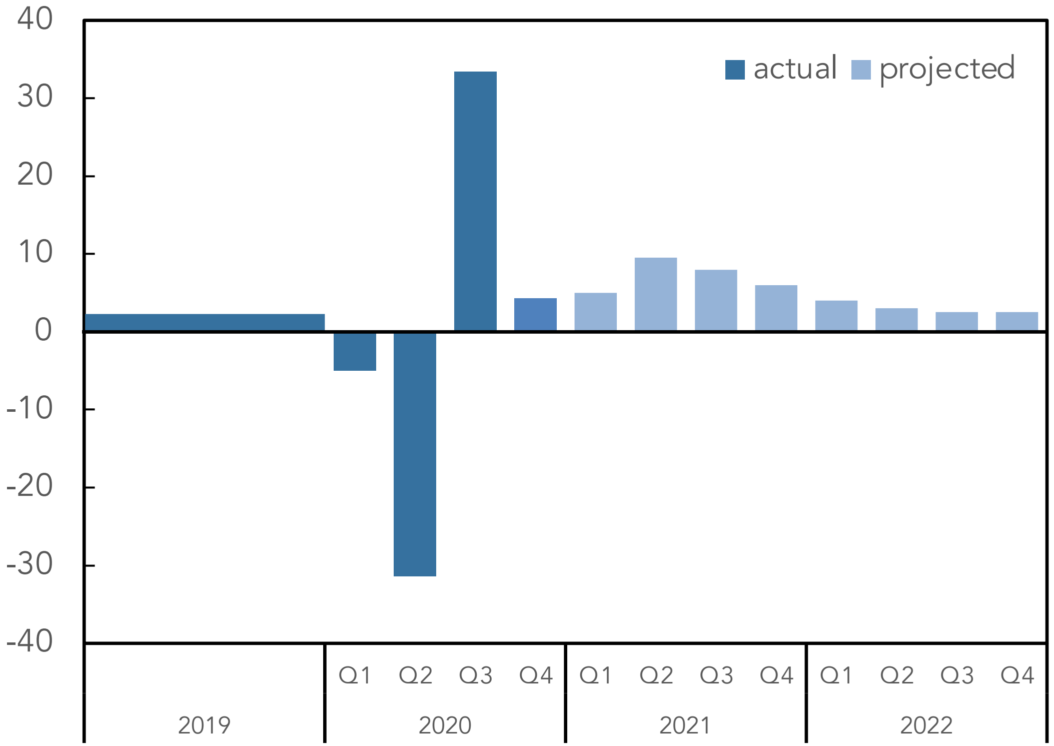


Note: Dashed segment is forecast

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

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

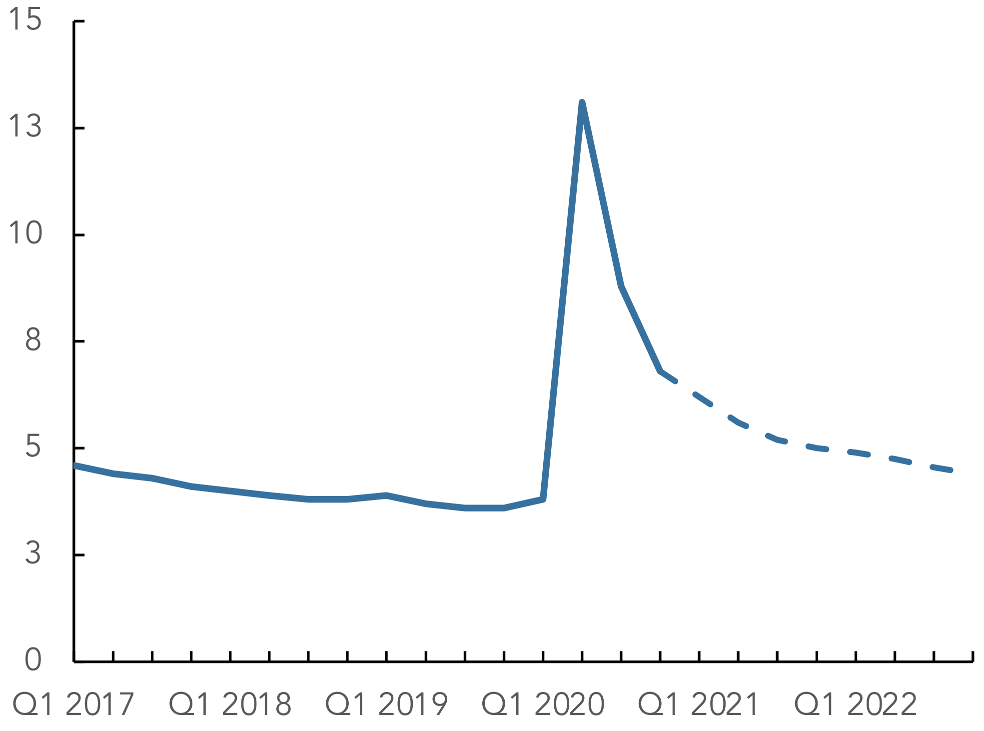
However, unusual factors are bearing on productivity now:

- 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

Unemployment Rate

Percent of labor force



Note: Dashed segment is forecast
Source: US Bureau of Labor Statistics; FRED; author's forecasts

Prime-age Labor Force Participation Rate

Percent of population

Note: Dashed segment is forecast
Source: US Bureau of Labor Statistics; FRED; author's forecasts

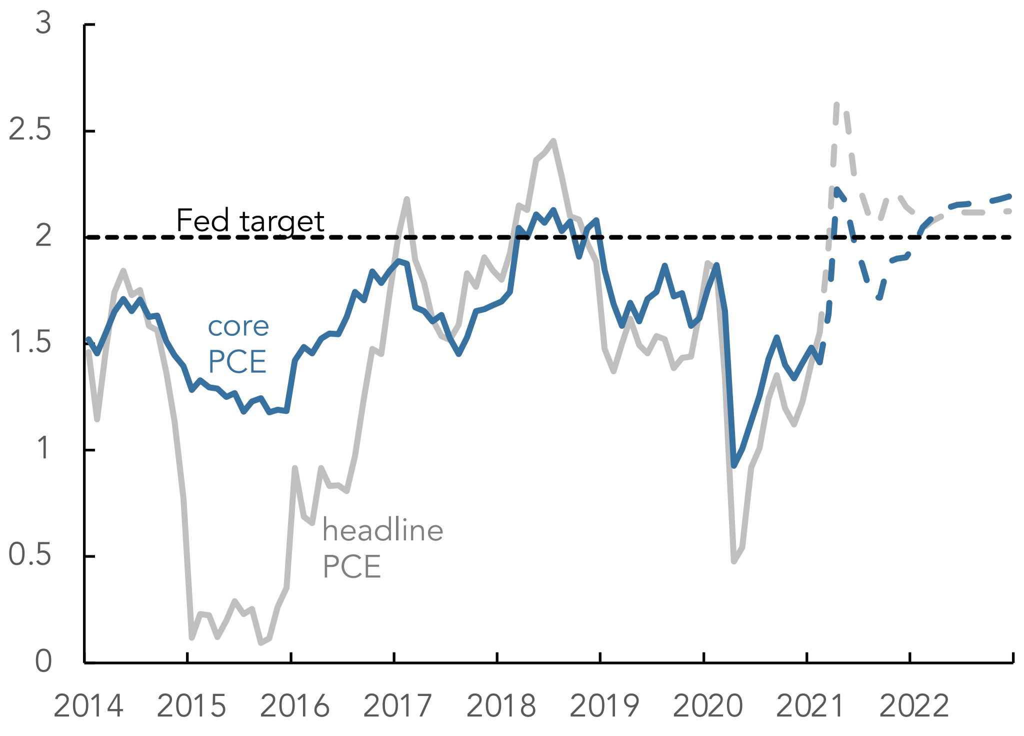
Inflation is likely to rise somewhat on a sustained basis

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")

Consumer Prices

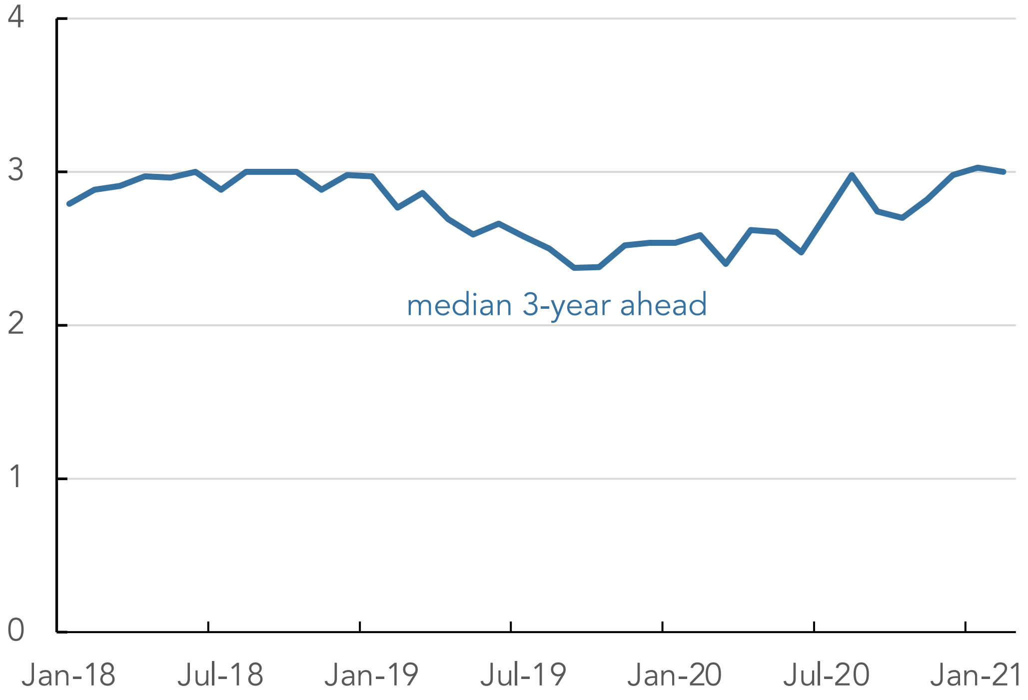
12-month percent change



Source: US Bureau of Economic Analysis; Haver Analytics; author's forecasts

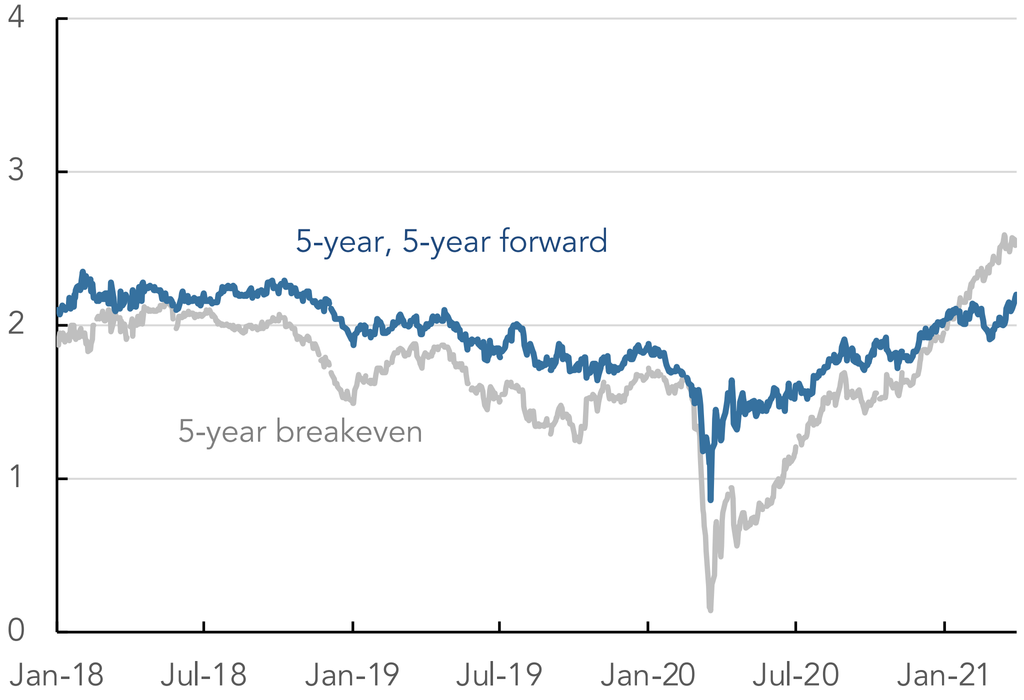
Inflation expectations appear to remain mostly anchored

Survey-based Inflation Expectations
Percent



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

Market-based Inflation Expectations
Percent

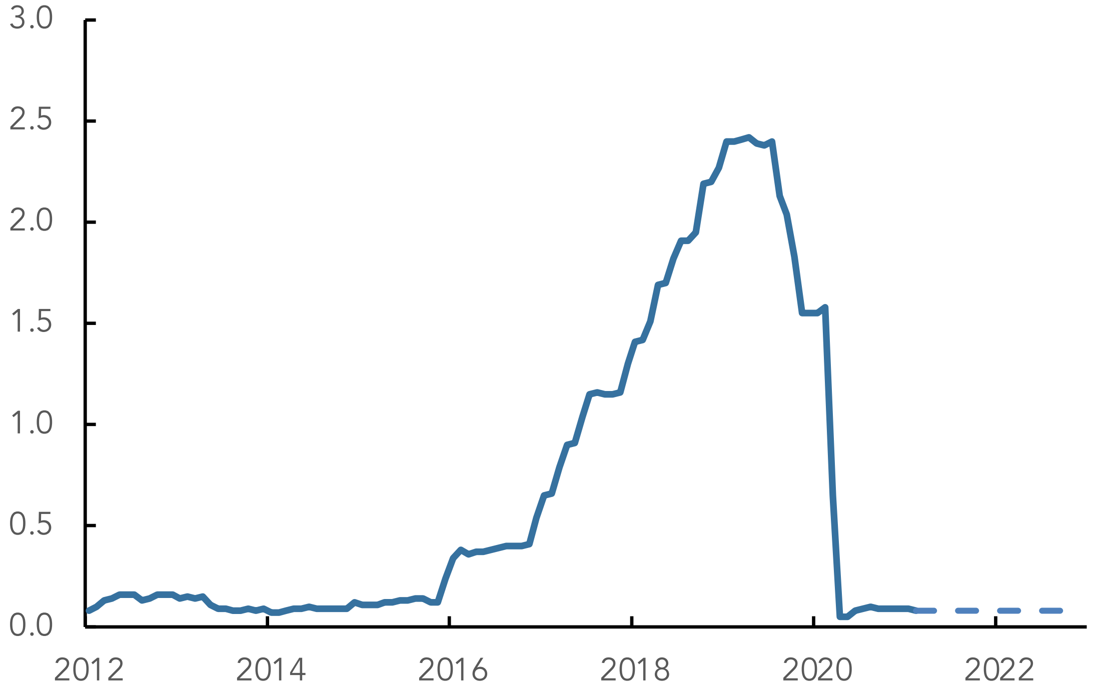


Source: Federal Reserve Bank of St. Louis

Under the baseline projections, the federal funds rate will stay at zero until 2023

Effective Federal Funds Rate

Percent



Source: Federal Reserve; FRED; author's forecast

As long as inflation stays below 2¼ 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

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

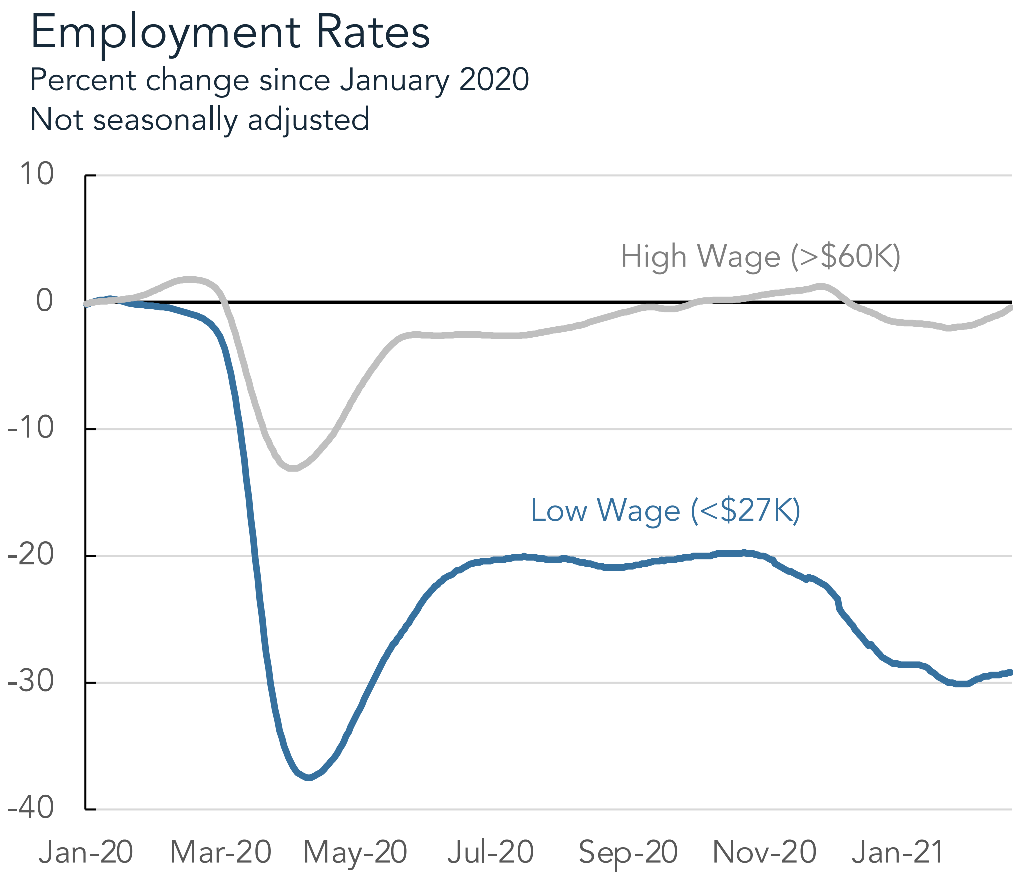
How will households fare in the post-pandemic US economy?

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

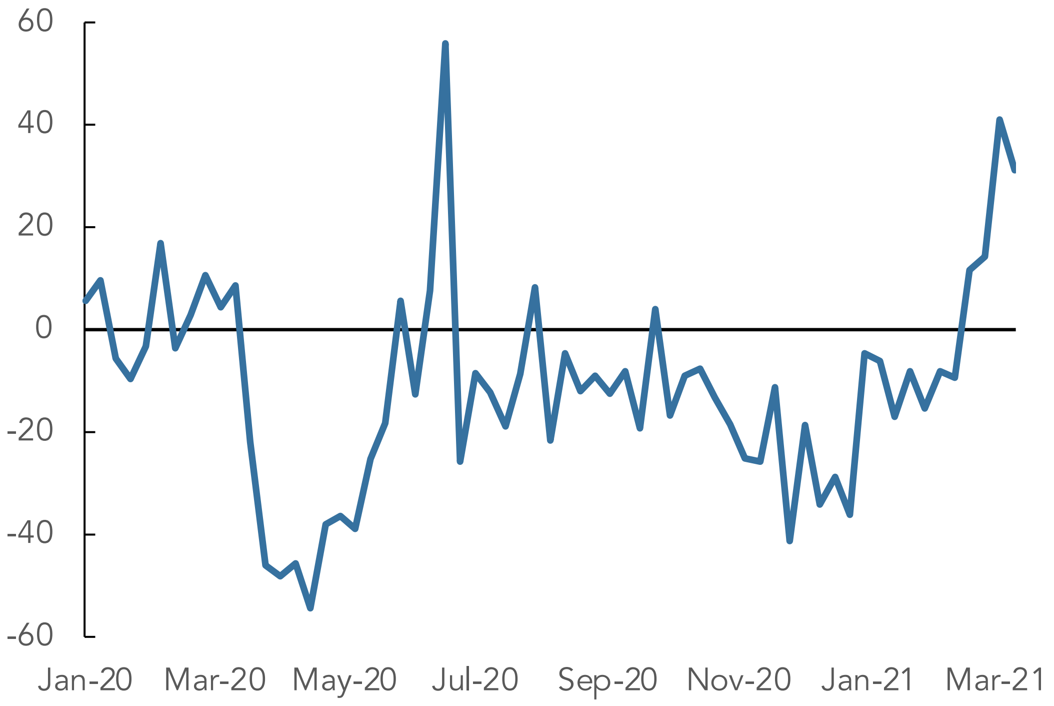


Job losses have been especially acute in some services sectors that typically employ large numbers of low-wage workers

Source: Earnin, Intuit, Kronos, Paychex via Tracktherecovery.org

Job prospects for lower-wage workers are improving, but there will be lingering weakness

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

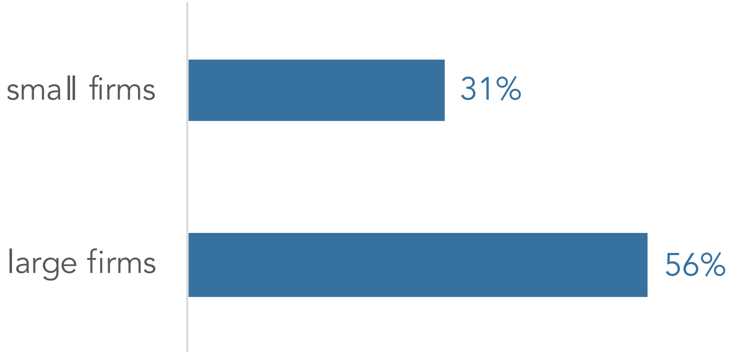


Source: Burning Glass Technologies via Tracktherecovery.org

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

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



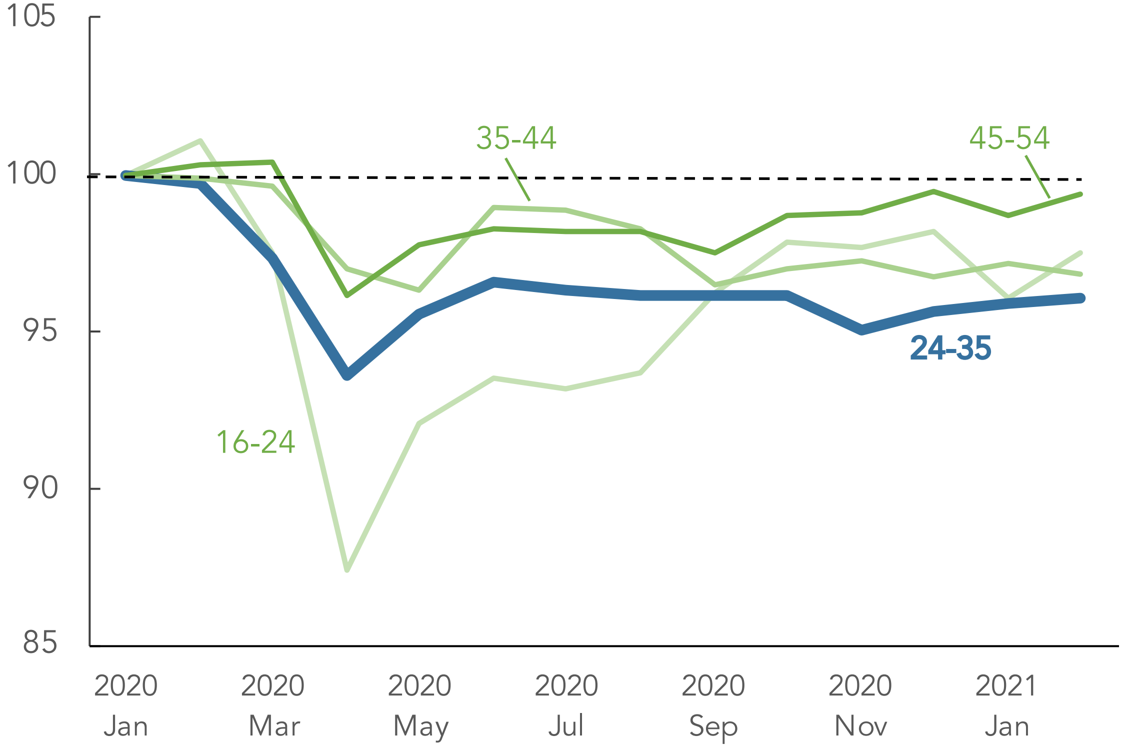
Share of Firms Expecting Low-Skill Workers to Be Affected by the Automation*

*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 Rates by Age
Jan. 2020 =100



Source: US Department of Labor

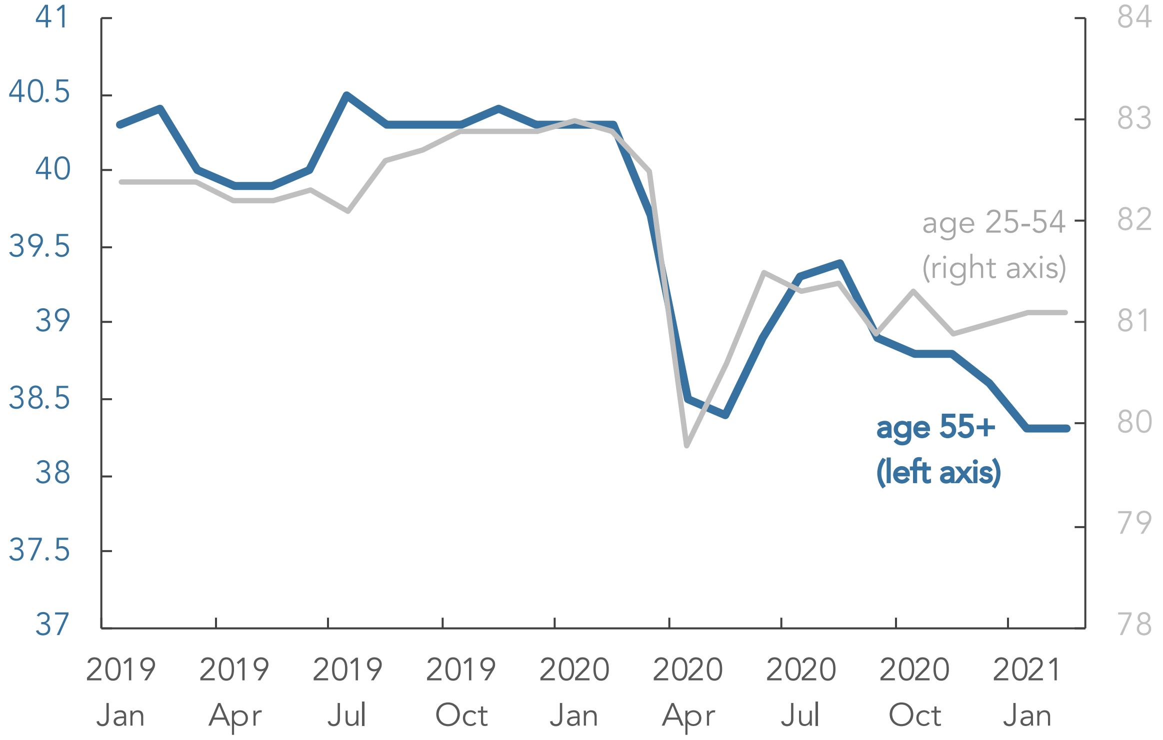
Female labor force participation for the age group most likely to have young children has shown little recovery from its decline in the early part of the pandemic

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

Labor Force Participation Rates by Age

Percent of population



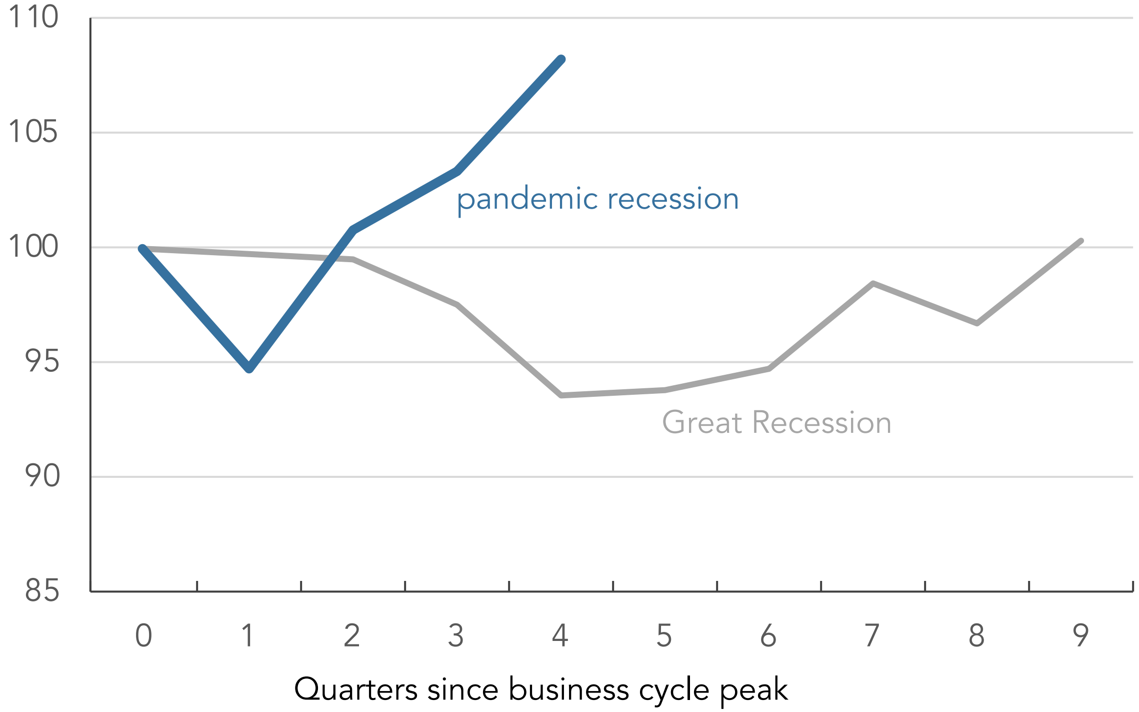
Source: US Department of Labor

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

But their lower participation may partly reflect good news for them (if not for potential output)

Aggregate Wealth for Households Ages 55-69

Business cycle peak = 100



Source: Federal Reserve Distributional Financial Accounts

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

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

Real GDP Growth (Y/Y)	2020	2021	2022
Global Output Growth	-3.6	5.6	4.4
United States	-3.5	6.3	3.5
Euro Area	-6.8	4.4	4.3
Japan	-4.9	2.5	2.5
United Kingdom	-9.9	3.8	4.7
China	2.3	8.5	5.9
India	-7.4	10.5	6.8
Russia	-3.1	2.7	3.0
Brazil	-4.1	-1.0	1.5

Source: Consensus Forecasts for 2020; PIIE for 2021-2022. Annual-average-over-annual-average growth rates. PPP weights.