

United States

2021 economic outlook:
The new Roaring Twenties?

19.01.2021



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Executive summary: a tale of two curves

- The **economic and pandemic curves** will dominate the US outlook.
- **In 2020** policy stimulus set the economy on a positive path as of Q3, with **solid household disposable income** and a **shift towards goods consumption**, while services remained crippled by the pandemic.
- **2021** opens on a weak note due to a third pandemic wave and expiring fiscal stimulus. But **the outlook is positive** on both fronts.
 - The **diffusion of effective vaccines** sets the stage for a strong economic rebound as of Q3, driven by the **demand for services**.
 - New **fiscal stimulus** enacted at end-2020 and more to come from the Biden Administration will help contain the pandemic and support the economy from the start of the year.
- The outlook is for **above-potential growth**, at 5.2% in 2021 and 3.4% in 2022, with **significant upside risks**. **Downside risks** are of non-economic origin, tied on the **health front** to the control of the pandemic and the vaccine rollout, and on the **political front** to social unrest and the fracture within the Republican party.
- **Inflation** is expected to be close to 3% in Q2, receding towards 2% in H2, but **risks are on the upside**.

Agenda

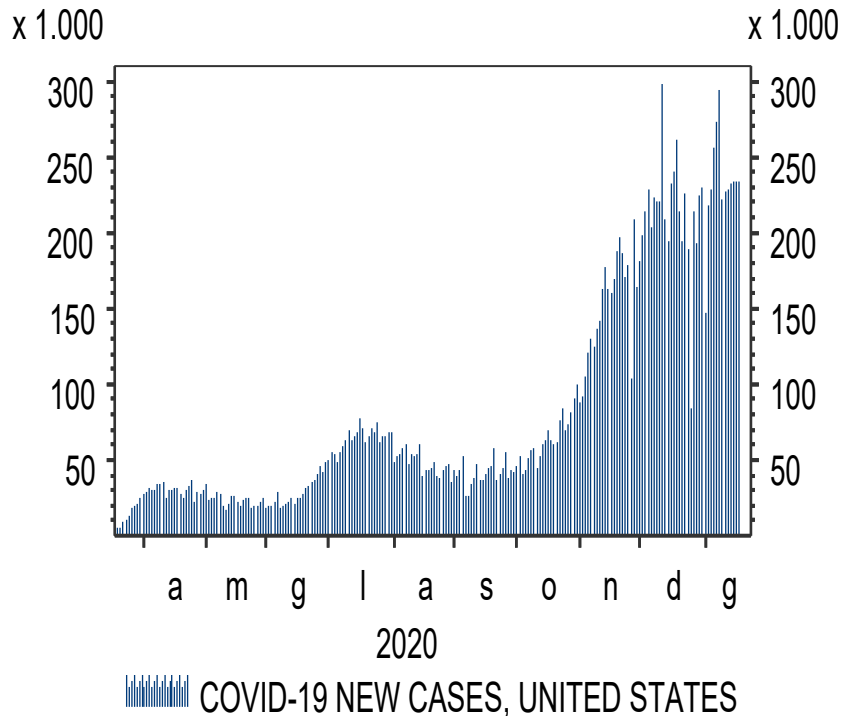
1 The economy is in better shape than it looks

2 The pandemic is the main risk for the recovery

3 A new «New Deal» is on the way

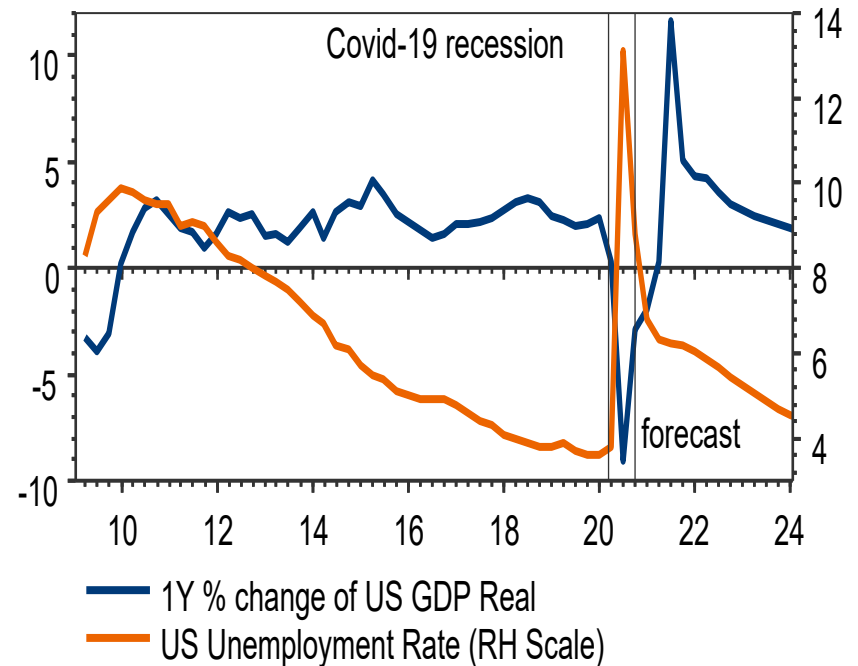
The pandemic is still here, but growth is solid

The third wave is still raging...



Source: Refinitiv-Datastream

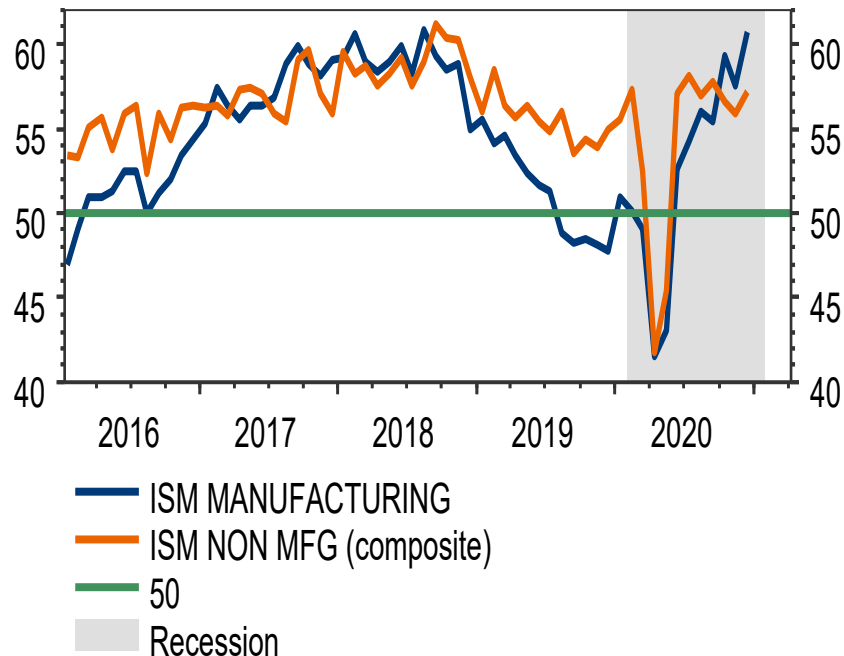
...but GDP growth is on its way to exceed 5% in 2021



Source: Refinitiv-Datastream, Intesa Sanpaolo forecasts

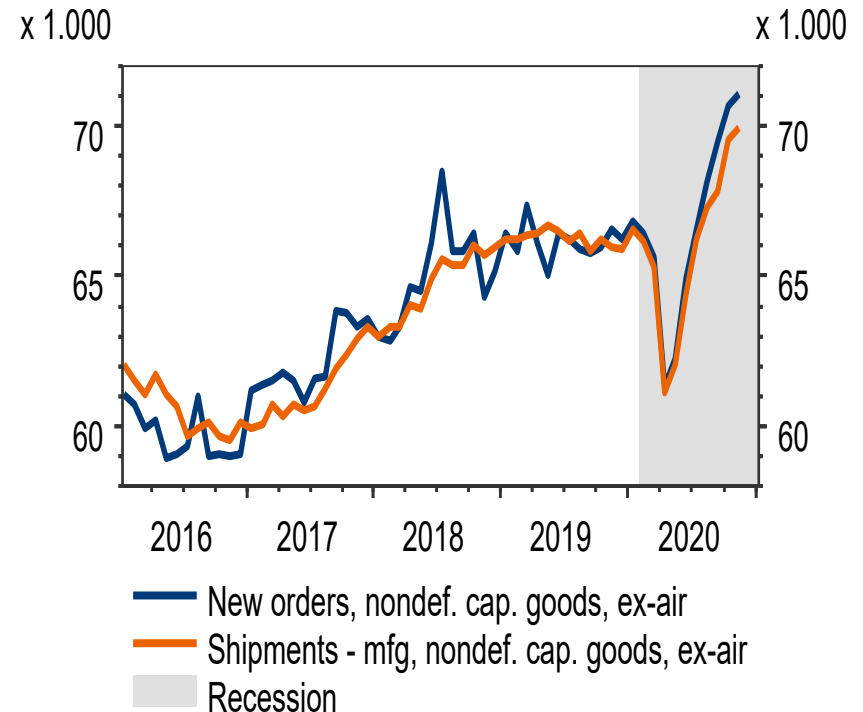
The economy is marching on in most sectors

Business surveys point to strong activity, constrained mainly by supply bottlenecks



Source: Refinitiv-Datastream

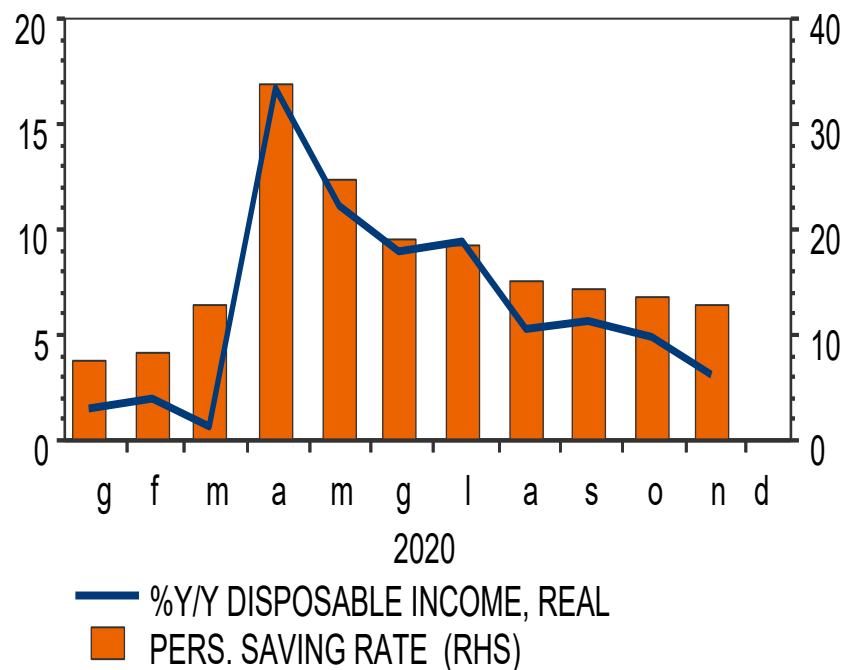
Orders and shipments of capital goods are way above pre-pandemic levels



Source: Refinitiv-Datastream

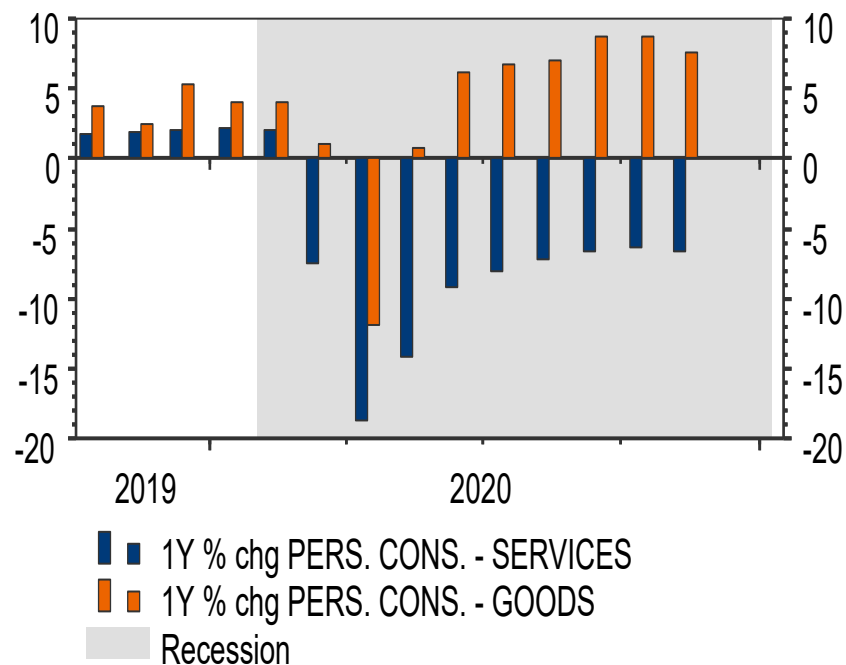
The consumer is in charge, thanks to record savings and a shift towards goods consumption

Household savings at record highs, disposable income still above pre-pandemic levels



Source: Refinitiv-Datastream

Consumption has bounced back, thanks to a shift towards goods, while services are constrained by Covid-19



Source: Refinitiv-Datastream

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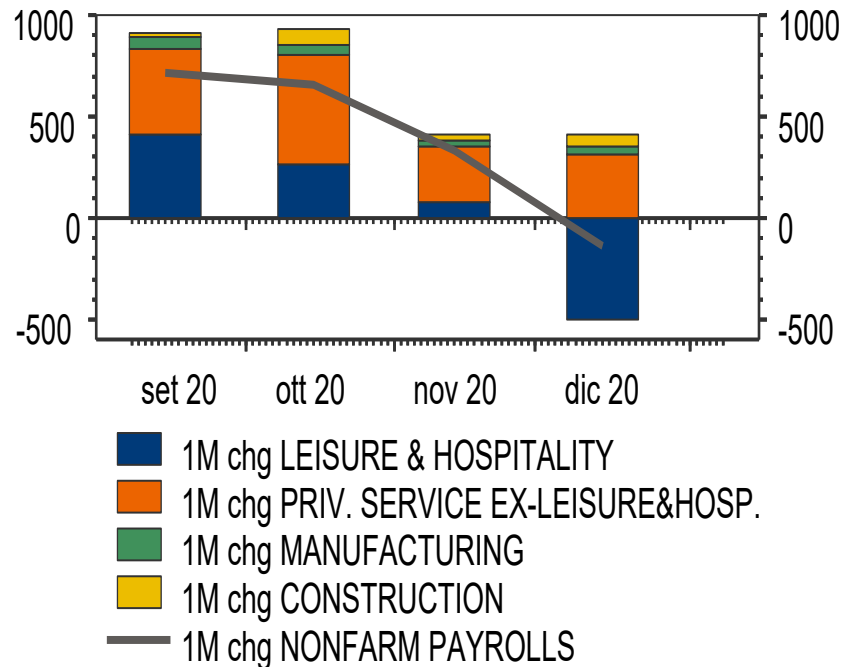
As cases mount, activity has retrenched again in sectors directly hit by the pandemic...

Mobility and Engagement Index: dropping towards levels not seen since last Spring



Source: Dallas Fed

Employment hit again in the leisure and hospitality sectors

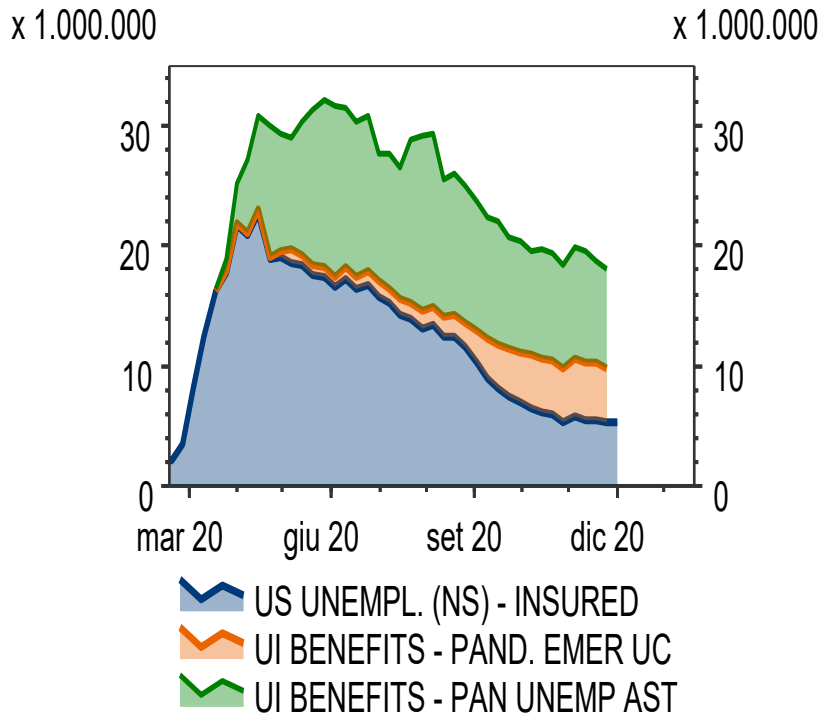


Source: Refinitiv-Datastream

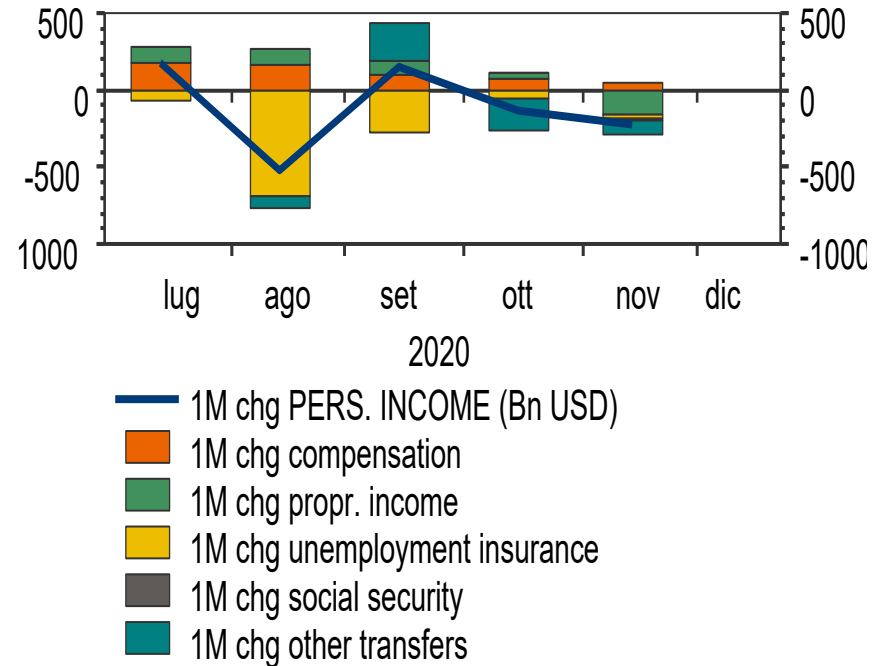
...while the end of fiscal stimulus took its toll on household disposable income

There are still approximately 18 mln unemployed or underemployed individuals...

...whose income has been falling since the Summer due to the end of the federal subsidies



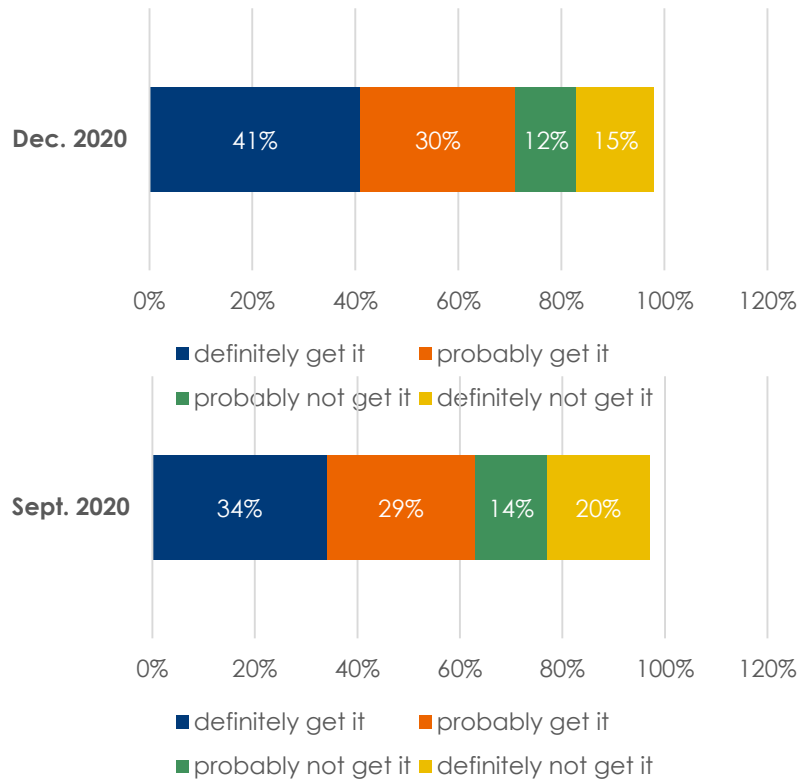
Source: Refinitiv-Datastream



Source: Refinitiv-Datastream

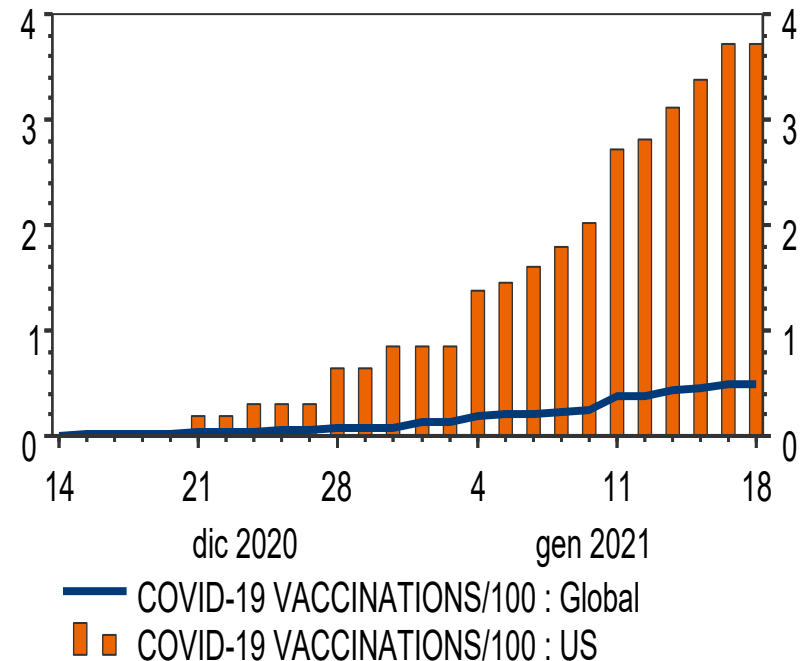
The pandemic is the main risk for the economic outlook, but the tide will turn with the vaccine rollout

The public's attitudes are becoming more favorable to getting the vaccine



Source: Kaiser Family Foundation, Survey

The vaccination program started at a slow pace, but will pick up speed with Biden's plan



Source: Refinitiv-Datastream. Data in % of the population.

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The Response&Relief Act: a bridge over troubled waters

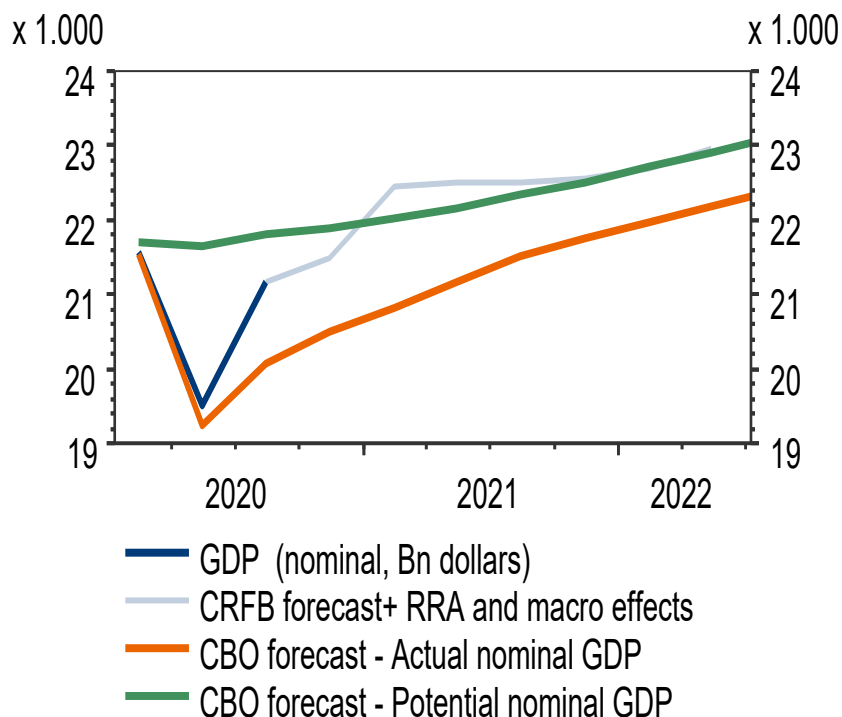
Tab. 1 – Estimated cost of the Response and Relief Act measures for 2021-2030 (CRFB)

Provision	Bn dollars
Aid to small businesses	325
- Deductibility of expenses paid by PPP loans	*
Extend and Augment Unemployment Benefits (+300\$/week) for 11 weeks	120
Stimulus checks of 600\$/person	166
Education	82
Health Care	56
- Fund some with existing relief funds	-18
Transportation	45
Other spending	83
Other tax cuts	40
TOTAL	920
Offsets (reductions in previous budget authority)	-560#
NET TOTAL (budget authority)	360†

Note:* This change could reduce tax revenues by up to 200 billion dollars compared to existing legislation (or less, if limits are imposed on deductibility, as reported by some sources), but most of the cost was inadvertently itemized in the original invoices, and therefore would not be considered as an additional cost by the CBO. # Although the proposal revokes the funds from the PPP program and from the slackening of Federal Reserve lending conditions, these funds would not have been spent in any case, based on the current law, therefore the impact on the effective deficit will be closer to 350 billion dollars. The exact impact on the deficit is unknown: for instance, jobless claims could cost more or less depending on the levels of unemployment, and PPP loans may not be fully used. Source: Committee for a Responsible Federal Budget

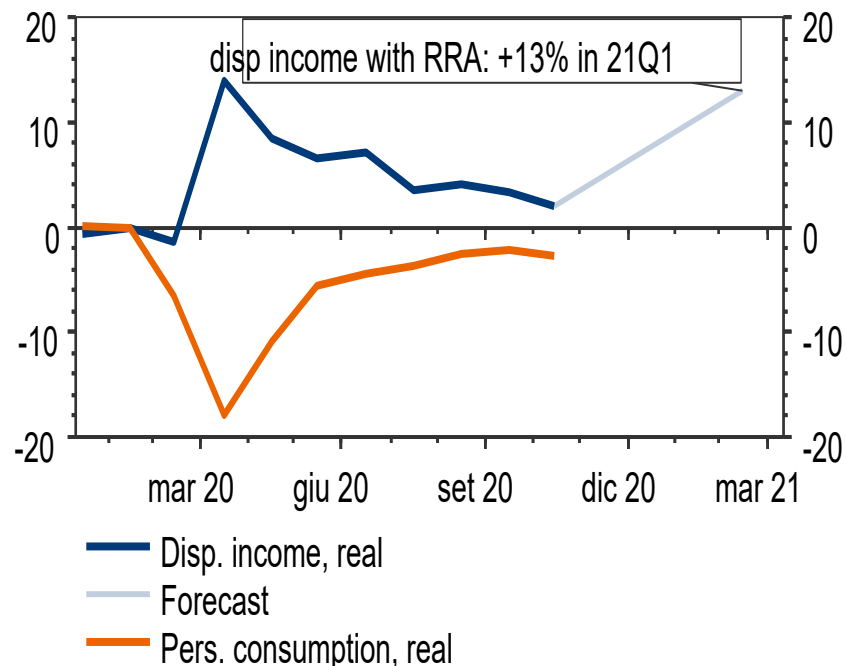
Consumers will power ahead with a «little» help from the latest fiscal stimulus, and more to come

The 2021 output gap will close with the help of the RRA



Source: Intesa Sanpaolo computations on CBO and CRFB data, CRFB forecasts

Household disposable income ready to take off, again



Source: Intesa Sanpaolo computations on CRFB forecasts

What's next? A likely two-pronged fiscal boost, huge but smaller than what has been announced

- A «**Relief Plan**» (**American Rescue Plan**), announced on 14/1, focuses on the **economic and health emergency**, would be deficit-financed and includes measures for 1.9 tln (see tab. 2).
- A «**Recovery Plan**», included in reconciliation bills (around 1 tln), would focus on infrastructure (transportation, clean energy), health/welfare/education, with possible discussion of corporate tax changes (OECD joint reform?).
- **VIEWPOINT** – Biden has a majority in both branches of Congress, but lacks the Senate votes necessary to legislate on items impacting the budget.
 - The administration could select the **most urgent measures** (Covid-19, unemployment, rebates, for a total of app. 800 Bn) and attempt to put them on a **fast track with bipartisan support, to be passed by March**. The American Rescue Plan is likely to be downsized.
 - The rest of the fiscal agenda would be advanced through **reconciliation bills**, with a mix of the remaining relief measures and structural interventions, from the Recovery Plan. **2022 is a tough electoral year**: Biden's fiscal plans will have to be dealt with in 2021.
 - The **total new stimulus could be around 1.5 tln (around 7% of GDP)**.

The relief plan to tackle the emergency

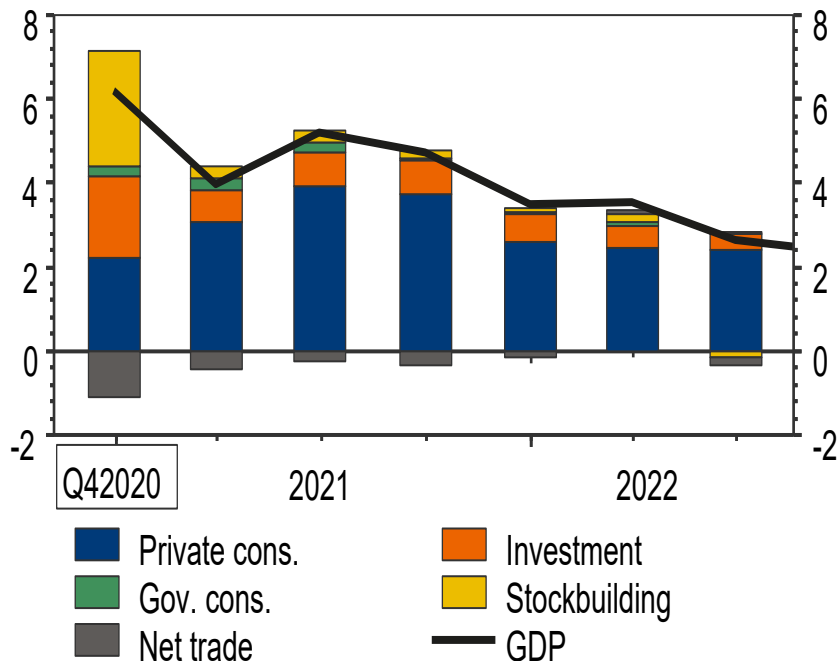
Tab. 2 - The American Rescue Plan: a first look at its impacts

Provision	Deficit impact (Bn USD)	Economic impact (Bn USD)	Multiplier
Provide \$1,400 per person "Recovery Rebates" on top of the \$600 already issued	465	279	0.6
Provide aid to state and local governments	350	315	0.9
Increase Unemployment Insurance supplement to \$400/week and extend emergency UI provisions through September	350	245	0.7
Provide funding for a national vaccination program, testing and other Covid efforts	160	128	0.8
Fund school reopening and increase funding to schools	170	119	0.7
Expand the Child Tax Credit	120	36	0.3
Provide rental and small landlord support	30	12	0.4
Provide support to childcare providers	25	15	0.6
Other	200	120	0.6
Total Reported Cost	1900	1269	0.62

Source: Intesa Sanpaolo on data from CRFB and CBO

A positive economic outlook for 2021, even amid unprecedented political and public health challenges

GDP growth and contributions: way above potential in 2021-22



Source: Refinitiv-Datastream, Intesa Sanpaolo forecasts

- The rocky start to 2021, with a dire health picture and worrying political events, should not derail the expected improvement of the economic outlook.
- Effective vaccines and fiscal stimulus open the way to a likely prolonged period of above-potential growth.
- **GDP is forecast to grow by 5.2% in 2021 and 3.4% in 2022, with large upside risks due to the still uncertain amount of extra stimulus.**

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