

# 2021 Economic Outlook

FASTER VACCINATIONS, ADDITIONAL STIMULUS, AND A MORE RAPID RECOVERY

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# CONTENTS

U.S. ECONOMIC RECOVERY POISED TO ACCELERATE ON MASSIVE STIMULUS, EASY MONETARY POLICY

## ▪ Markets

*Stocks and Bonds Continue Recalibrating to New Landscape: More Stimulus, Faster Vaccinations, Easy Monetary Policy*

## ▪ Pandemic

*Health Situation Improves Significantly in U.S.; Divergent Rates of Improvement by Country*

## ▪ Economy

*Signs of Re-Opening; Larger Stimulus than Expected Has More-than Insulated Consumers from Heavy, Persisting Job Losses*

## ▪ Outlook

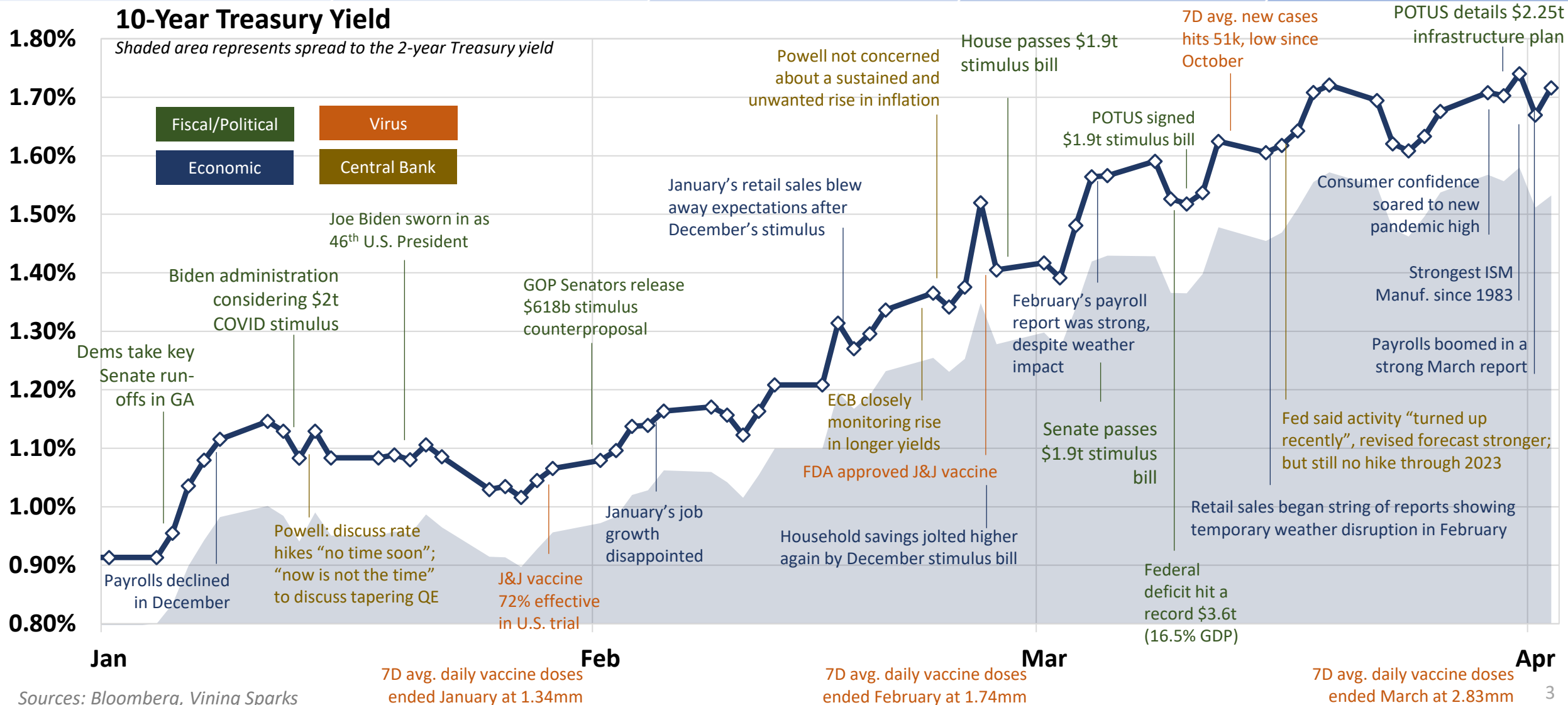
*More Stimulus and Faster Vaccination Process Leads to Faster Recovery*

## ▪ Inflation

*Higher Prices in Near Term, Likely Temporary; Risks Elevated*

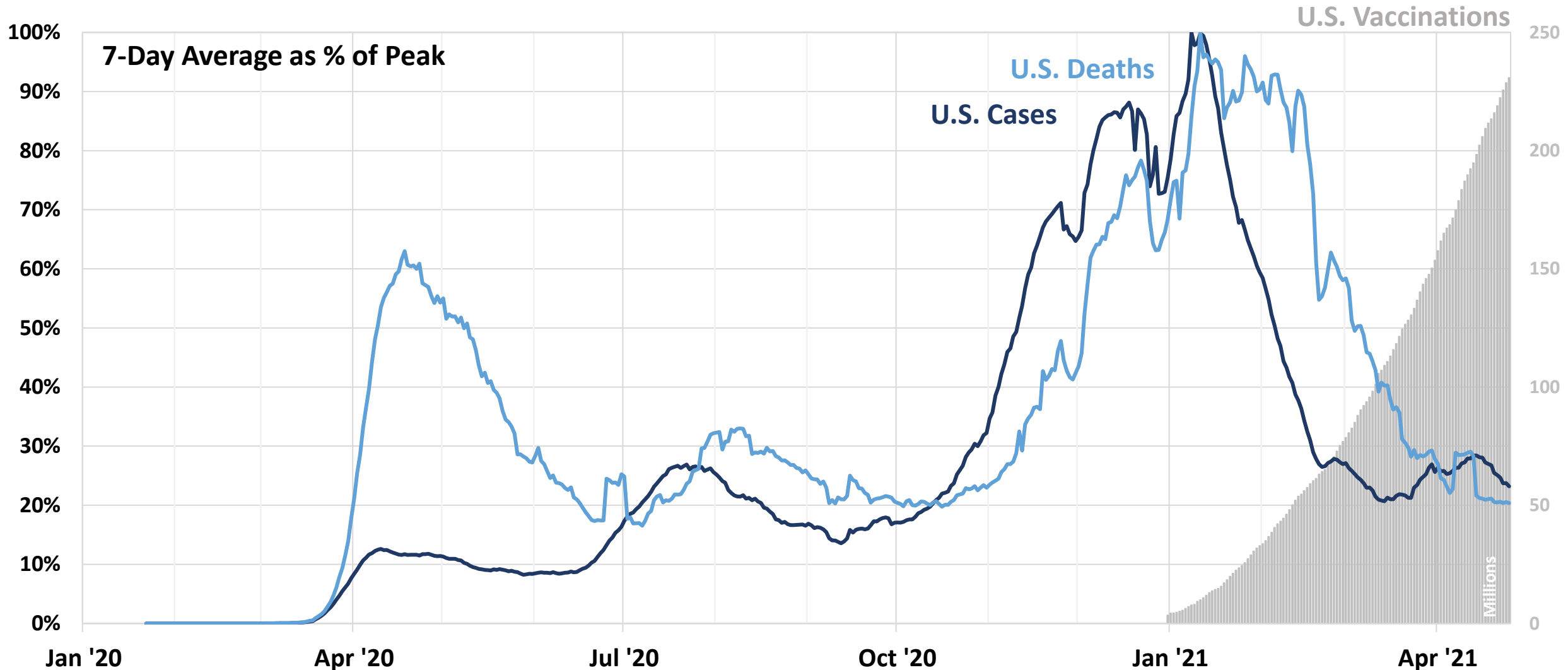
# LONGER YIELDS MOVE UP

AN IMPROVING OUTLOOK, WITH THE FED ON HOLD, SENT LONGER YIELDS UP IN STEEPENING FASHION



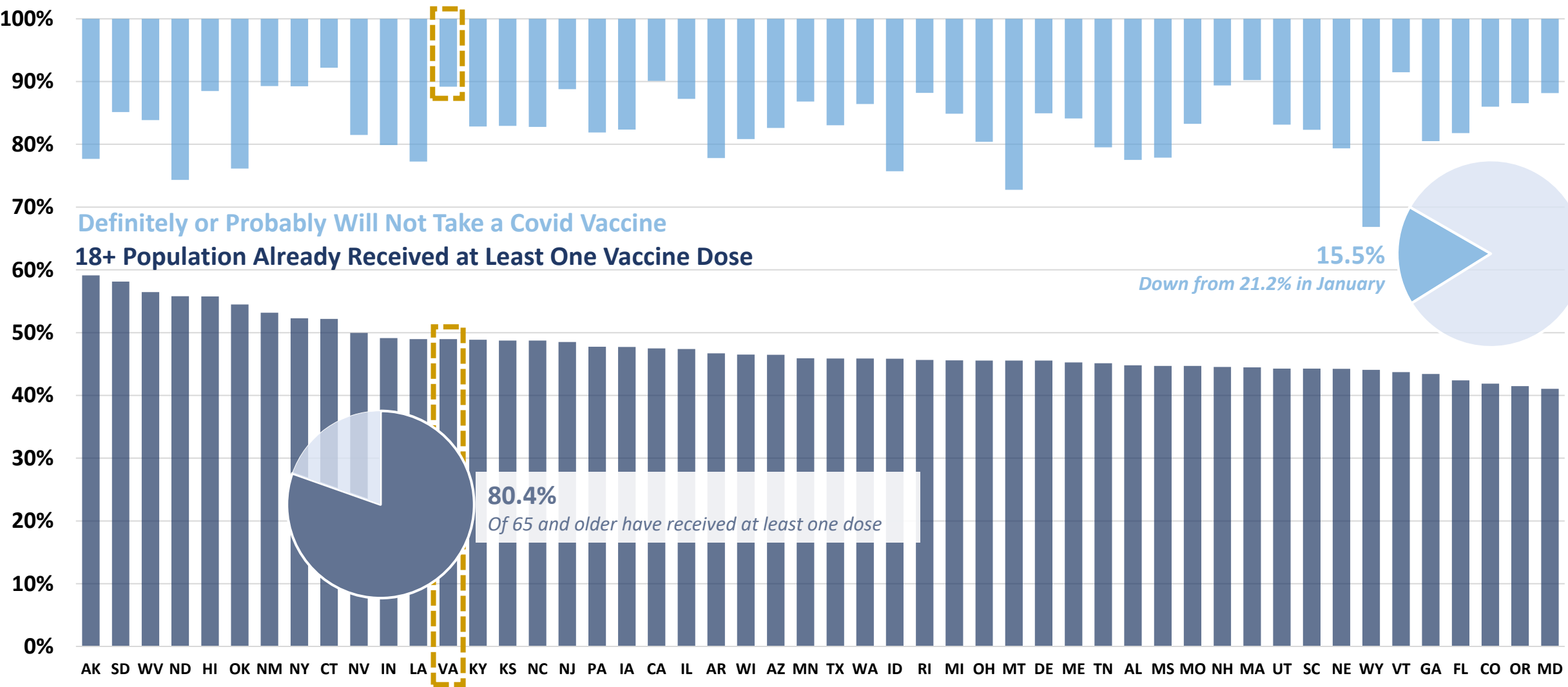
# U.S. PANDEMIC SITUATION

THE U.S. PANDEMIC APPEARS TO BE HEADED IN A BETTER DIRECTION AS ROLLOUT OF VACCINES ACCELERATES



# VIRUS CONTAINMENT

VACCINE ROLLOUT HAS OCCURED FASTER THAN MANY EXPECTED; TARGET GROUP LEADS, HESITATION EBBS

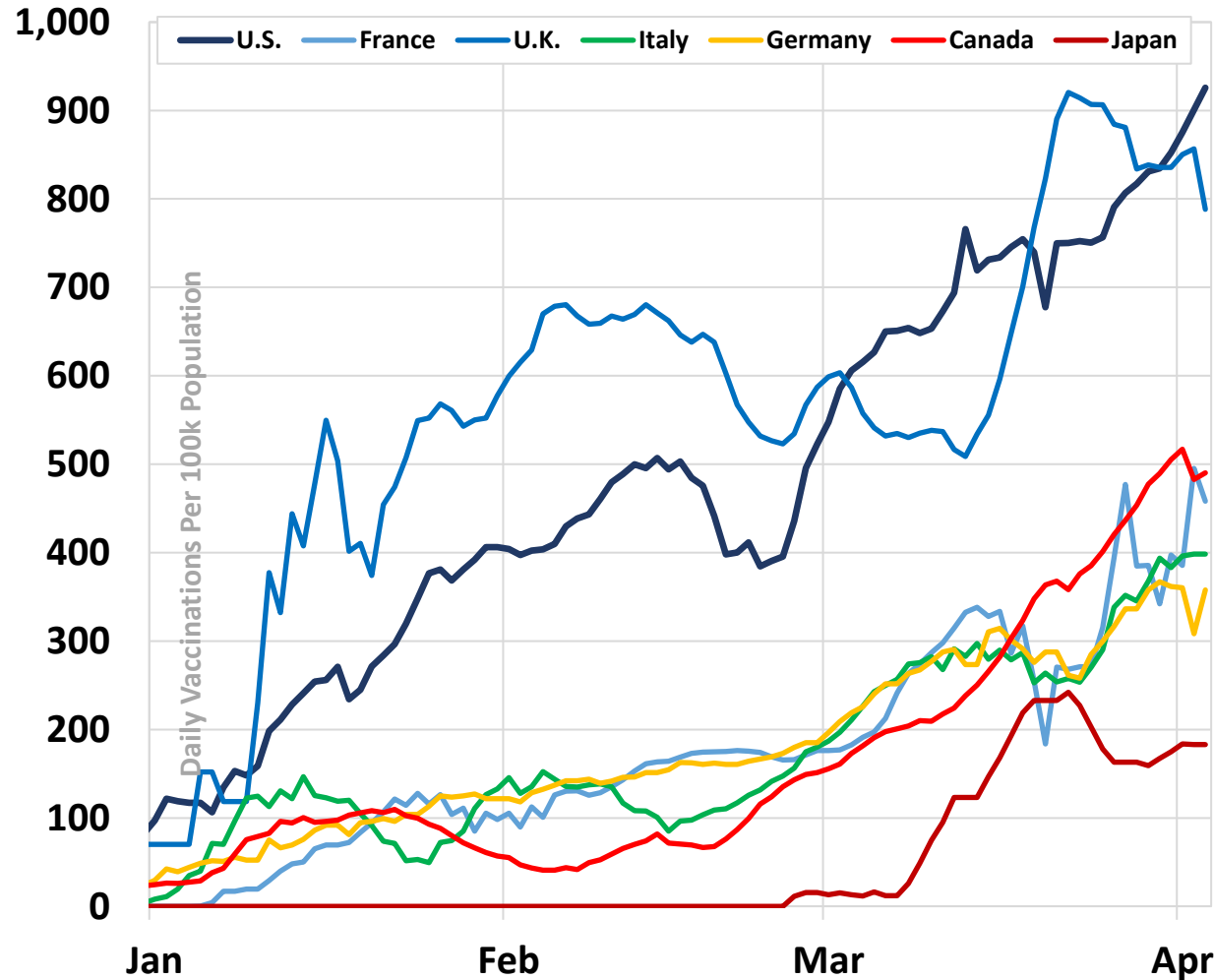


Sources: Bloomberg, Census Bureau (As of March 29 Report Released April 7), Vining Sparks

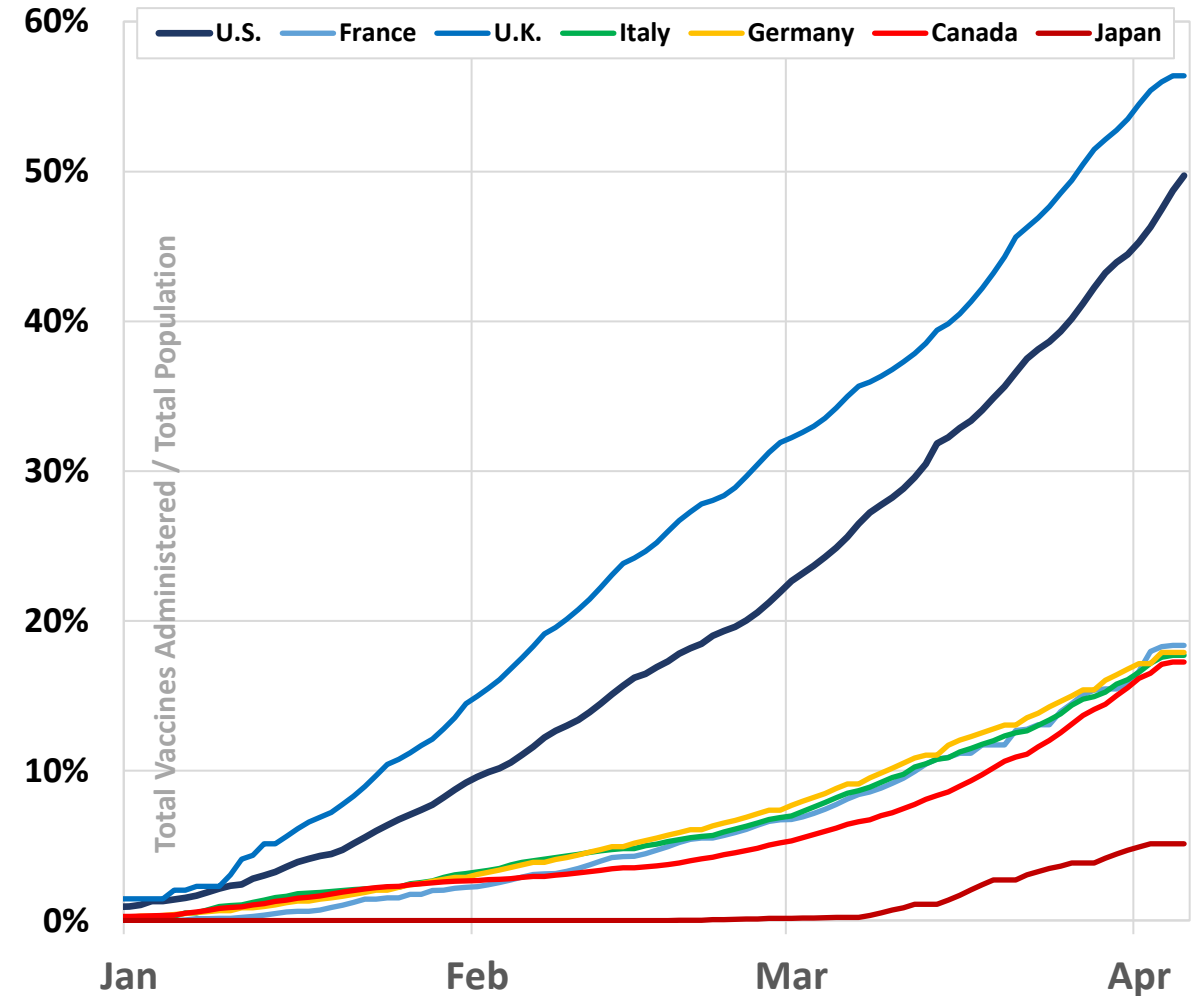
# G7 VACCINATIONS

U.S. SURPASSED U.K. IN PER CAPITA DAILY VACCINATIONS, BOTH HAVE BETTERED OTHER G7 NATIONS

Daily Vaccinations Per Capita – G7 Countries



Total Vaccinations / Total Population – G7 Countries



# FISCAL RESPONSE

CONGRESS CONTINUES WORKING TO CONTAIN, TEST, AND TREAT VIRUS; AND OFFSET ECONOMIC IMPACT

## Phase 5: American Rescue Plan Act of 2021 (Mar. 11) - \$1.9 trillion

### Individuals:

- \$410 billion in payments direct to individuals (\$1,400 per adult and child, and adult dependents)
  - Phase-out begins at \$75k single / \$150k married
- \$246 billion for extension of expanded Unemployment Insurance programs
  - Includes traditional beneficiaries plus self-employed and workers in gig Economy
  - Max benefit increased \$300 / week, extended through September 6
- \$143 billion for expansion of child tax credit, earned income tax credit
- \$46 billion for rent assistance

### Health Care and Covid Containment: \$228 billion

- \$105 billion for hospitals
- \$123 billion for testing, vaccine distribution, medical supplies

### Education and Childcare: \$215 billion

- \$176 billion for K-12 schools and colleges / universities
- \$39 billion for childcare providers

### State and Local Government: \$360 billion

- \$155 billion for local governments, territories, and tribes
- \$195 billion for state governments

# BUILD BACK BETTER PLAN



PHASE ONE OF BUILD BACK BETTER CALLS FOR \$2.25T SPENDING, CORPORATE TAX RATE HIKE TO 28%

## American Jobs Plan – Part 1 of Build Back Better Plan

### Infrastructure: \$621 billion

- \$174B - Invest in electric vehicles: Consumer rebates; Incentives to build 500k EV charging stations; Electrify federal vehicles
- \$115B – Modernize bridges, highways, roads
- \$85B – Modernize public transit
- \$80B – Improve passenger and freight rail service; Fund Amtrak’s repair backlog
- \$50B – Improve infrastructure resilience; Defend vulnerable communities

### “Infrastructure at Home”: \$650 billion

- \$213B – Retrofit 2mm+ homes; Build and rehab 500k homes for low- and middle-income homebuyers; Improve public housing
- Deliver Universal broadband, including to more than 35% of rural Americans who lack access to high-speed internet
- \$111B – Provide clean drinking water; Replace country’s lead pipes
- \$100B – Upgrade and build new public schools
- \$25B – Upgrade childcare facilities

### “Care Economy”: \$400B

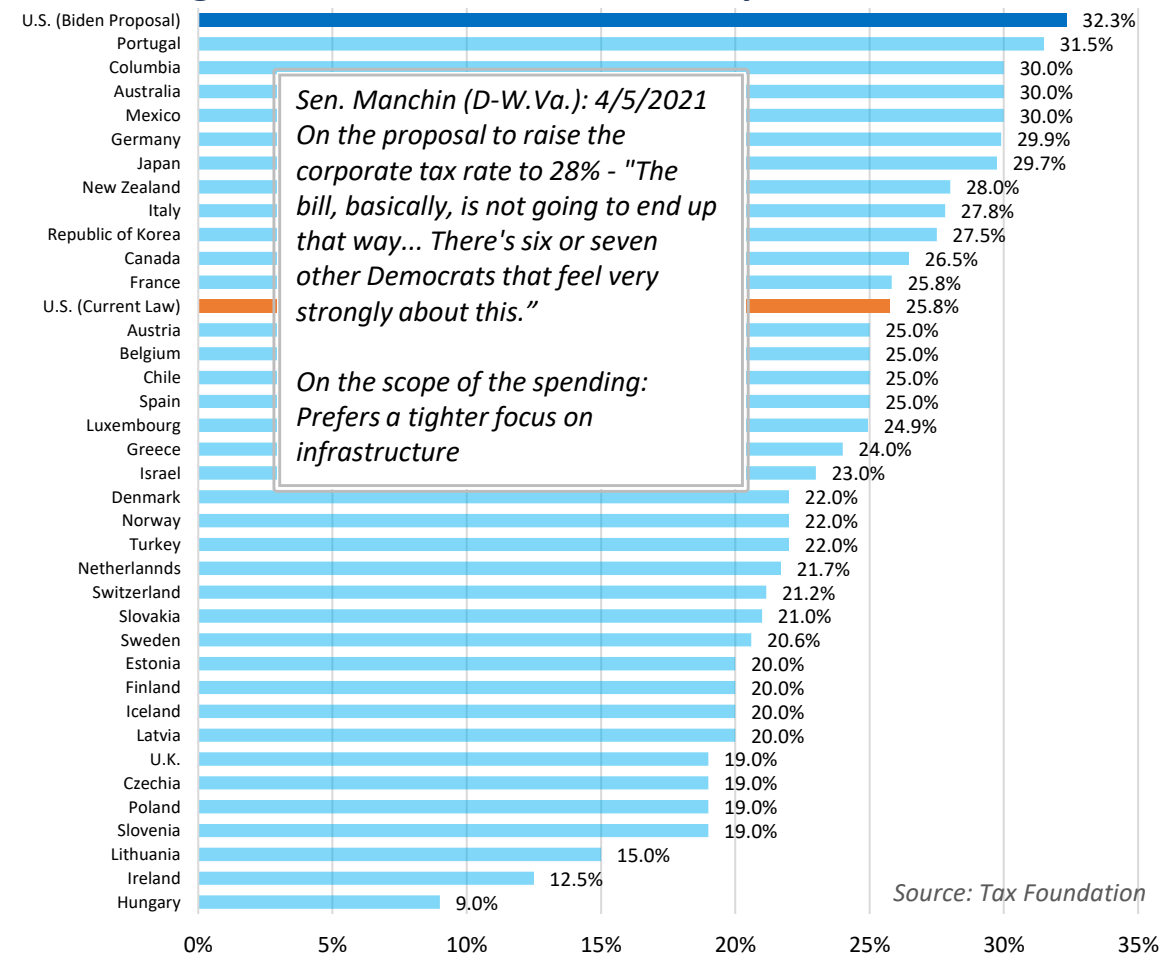
- Expands access to home- or community-based care for seniors and people with disabilities
- Extend Medicaid program: Money Follows the Person

### Research, Development, Manufacturing: \$580B

- \$180B – Research and development; Includes clean-energy research to reduce emissions; Boost climate-focused research
- \$50B – Semiconductor manufacturing
- Incentives for locating manufacturing jobs in “industrial heartland”

## Statutory Corporate Tax Rates in OECD Countries

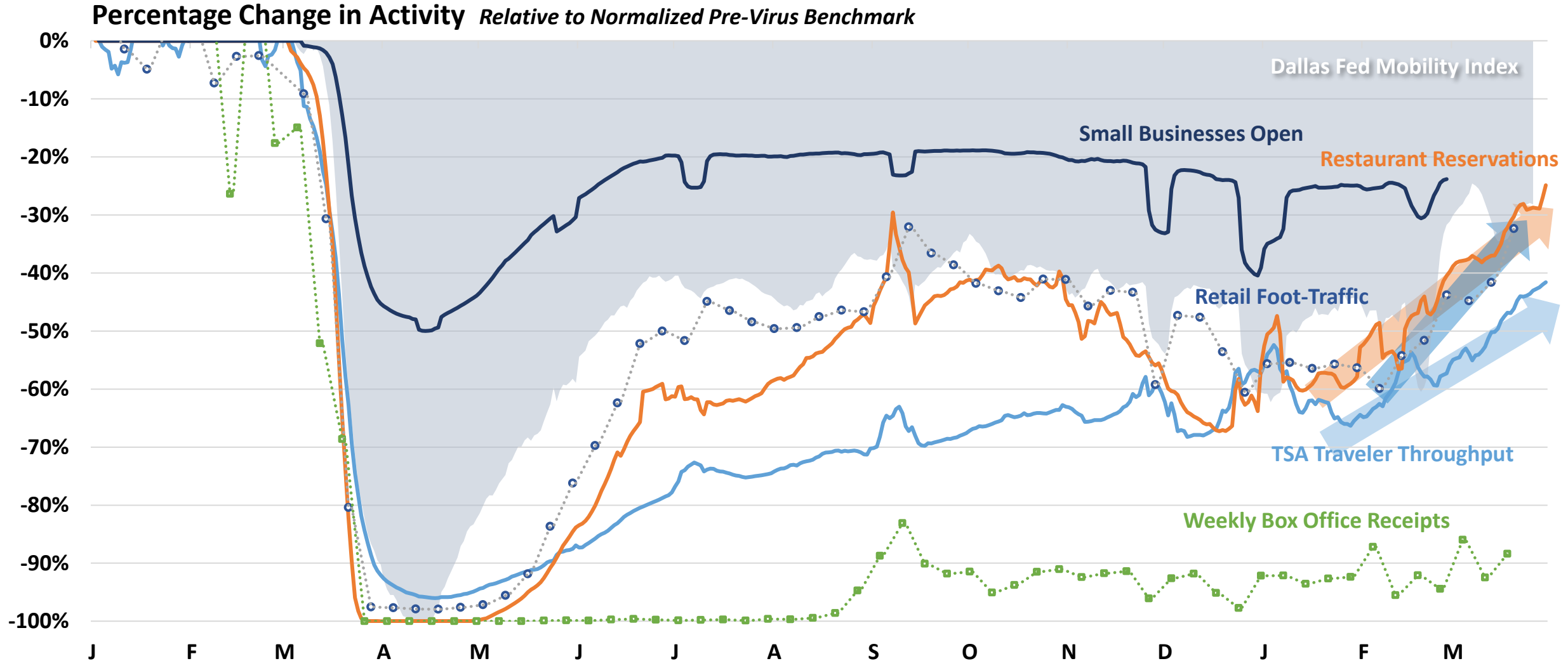
### Including National and Subnational Corporate Rates





# ALTERNATIVE DATA TRENDS

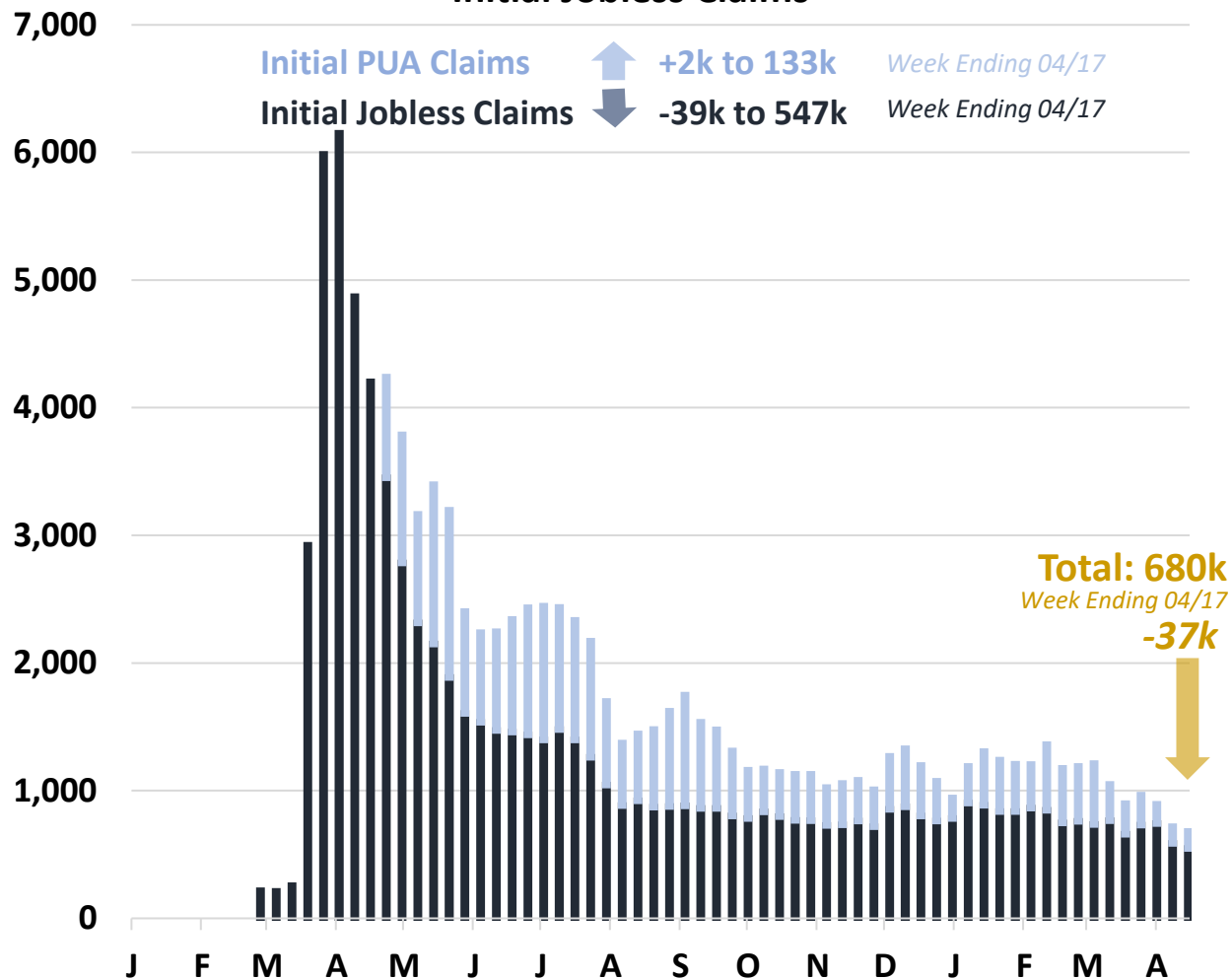
ALTERNATIVE DATA SHOW AN ACCELERATION IN MORE TIMELY LEISURE, RETAIL, AND RESTAURANT ACTIVITY



# JOBLESS CLAIMS

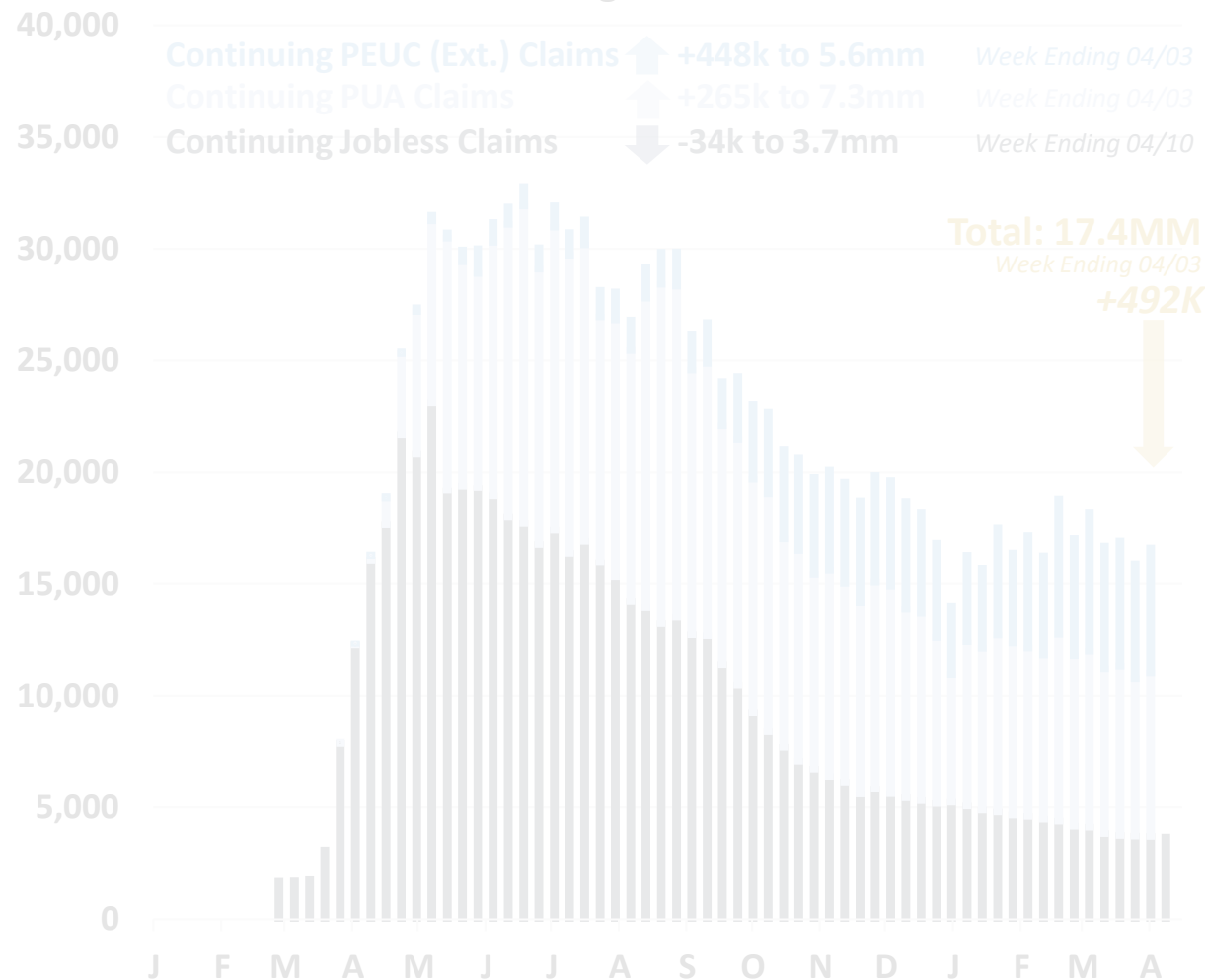
NEW AND CONTINUING CLAIMS REMAIN ELEVATED, DISPARITY IN RECOVERY RATES GEOGRAPHICALLY

## Initial Jobless Claims



Sources: DOL, BLS, Vining Sparks

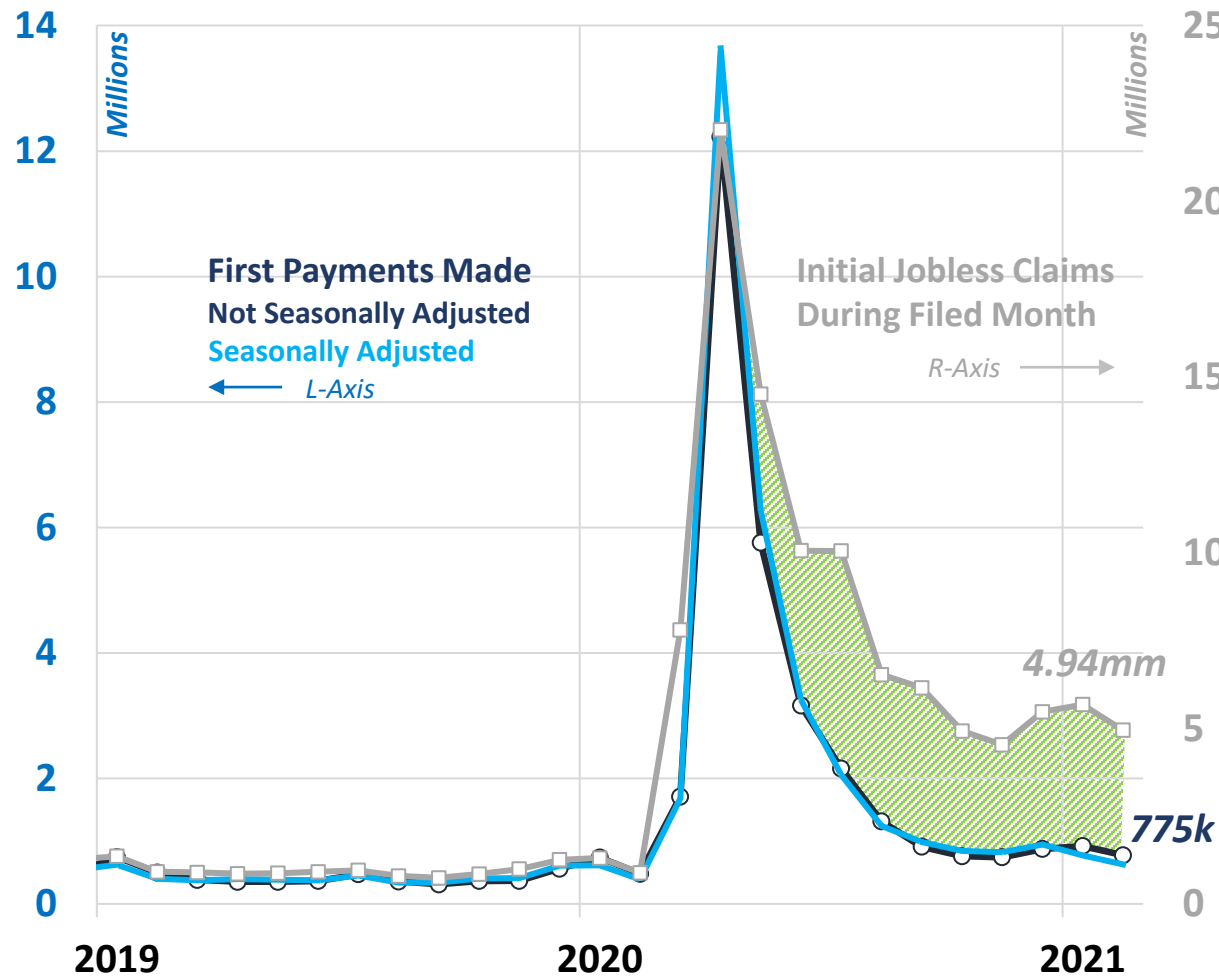
## Continuing Jobless Claims



# APPROVED CLAIMS

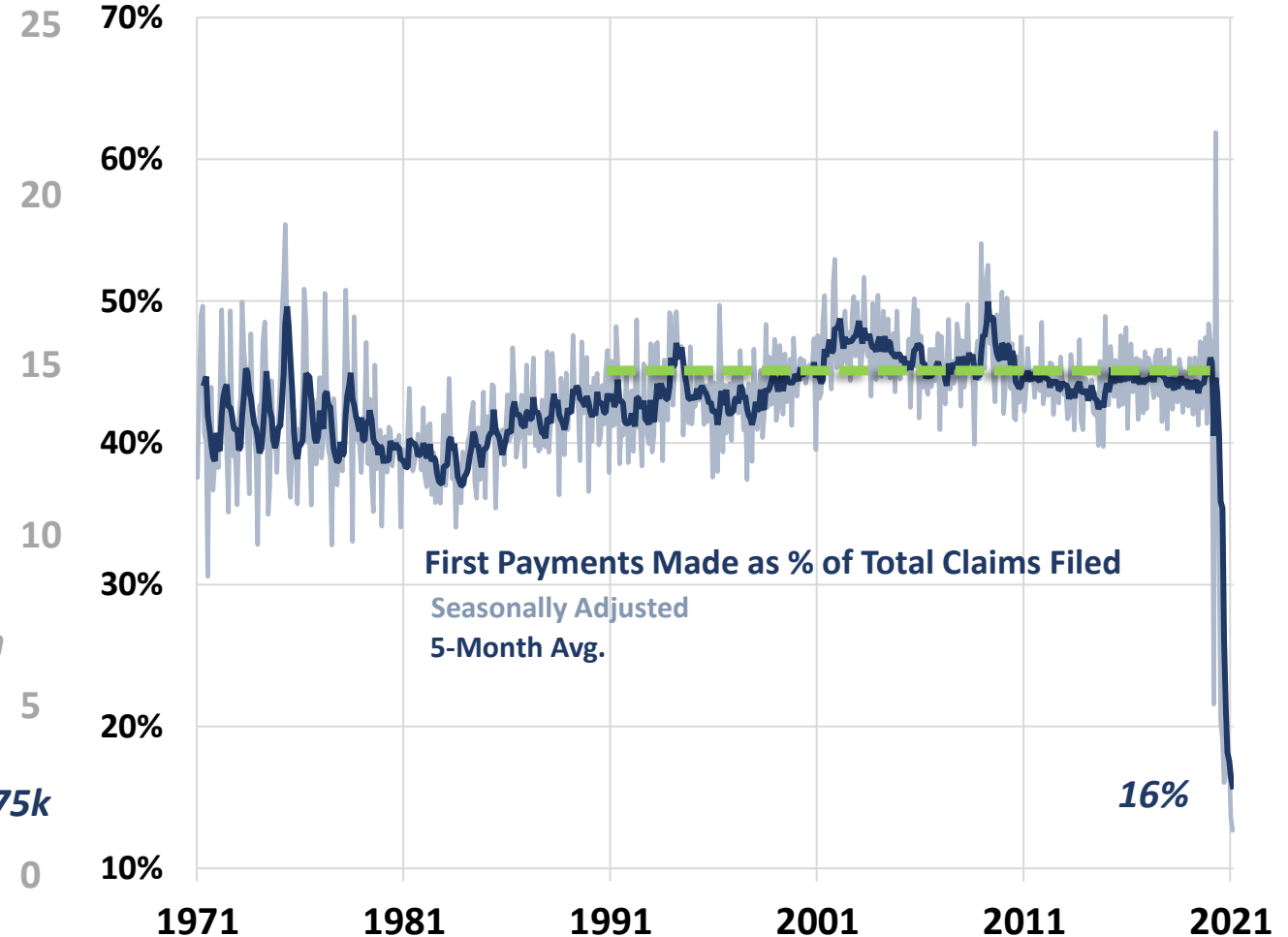
WHILE INITIAL CLAIMS REMAIN HISTORICALLY HIGH, APPROVED CLAIMS ARE NOT AS ELEVATED

## Initial Jobless Claims and First UI Payments Made



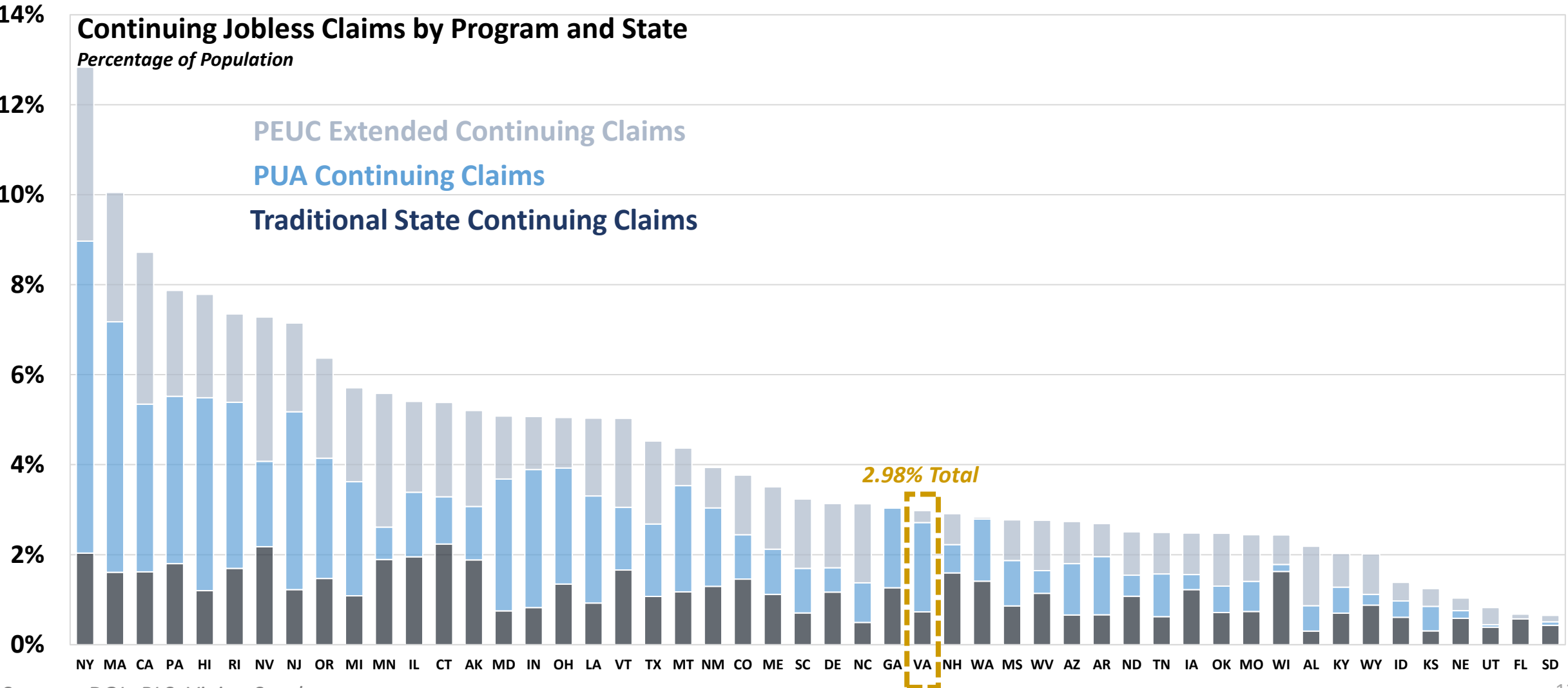
Sources: DOL, BLS, Vining Sparks

## Percentage of Claims Paid (Monthly)



# GEOGRAPHIC DISPARITY

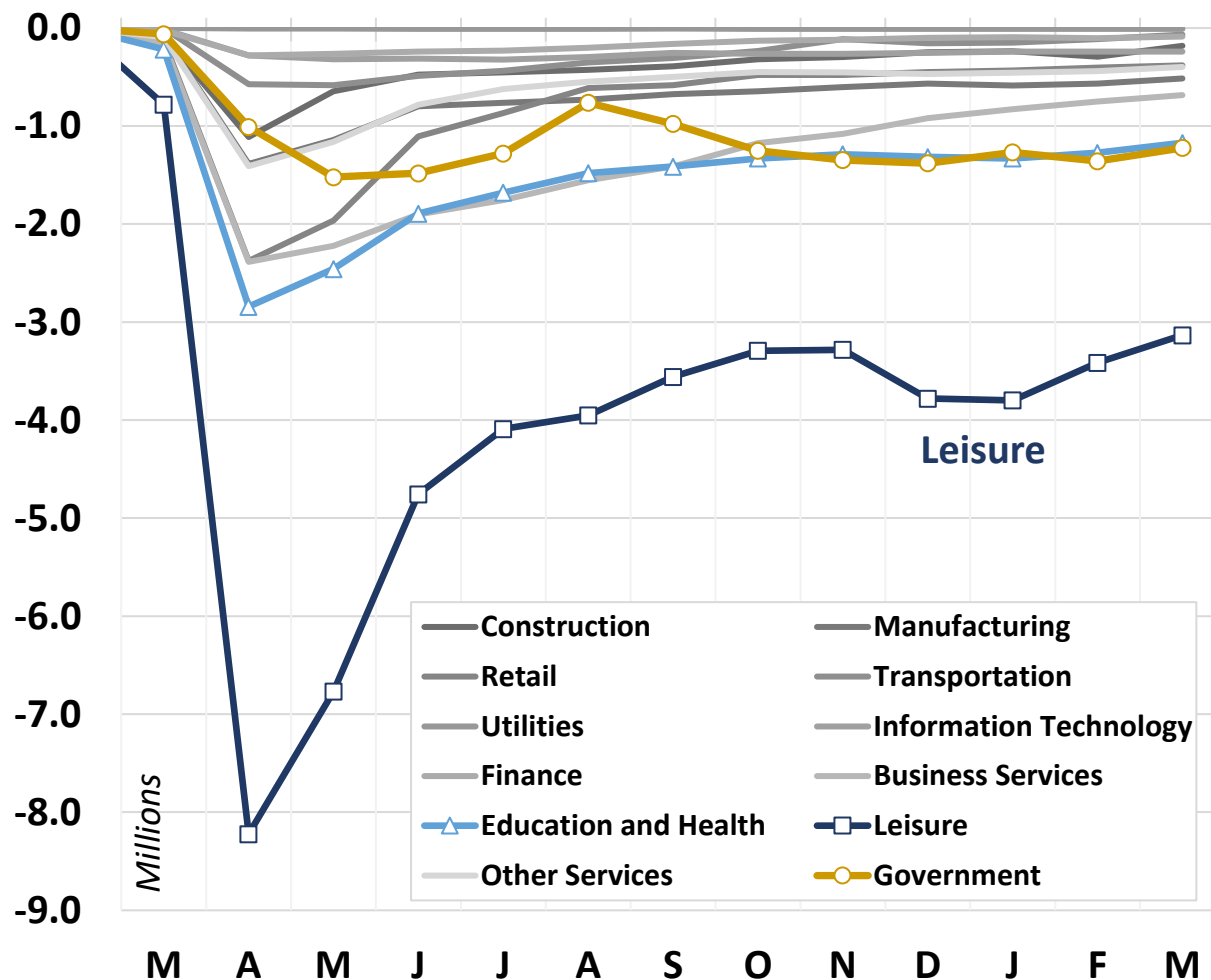
CONTINUING CLAIMS BY STATE HIGHLIGHT GEOGRAPHIC DISPARITY IN RATES OF RECOVERY



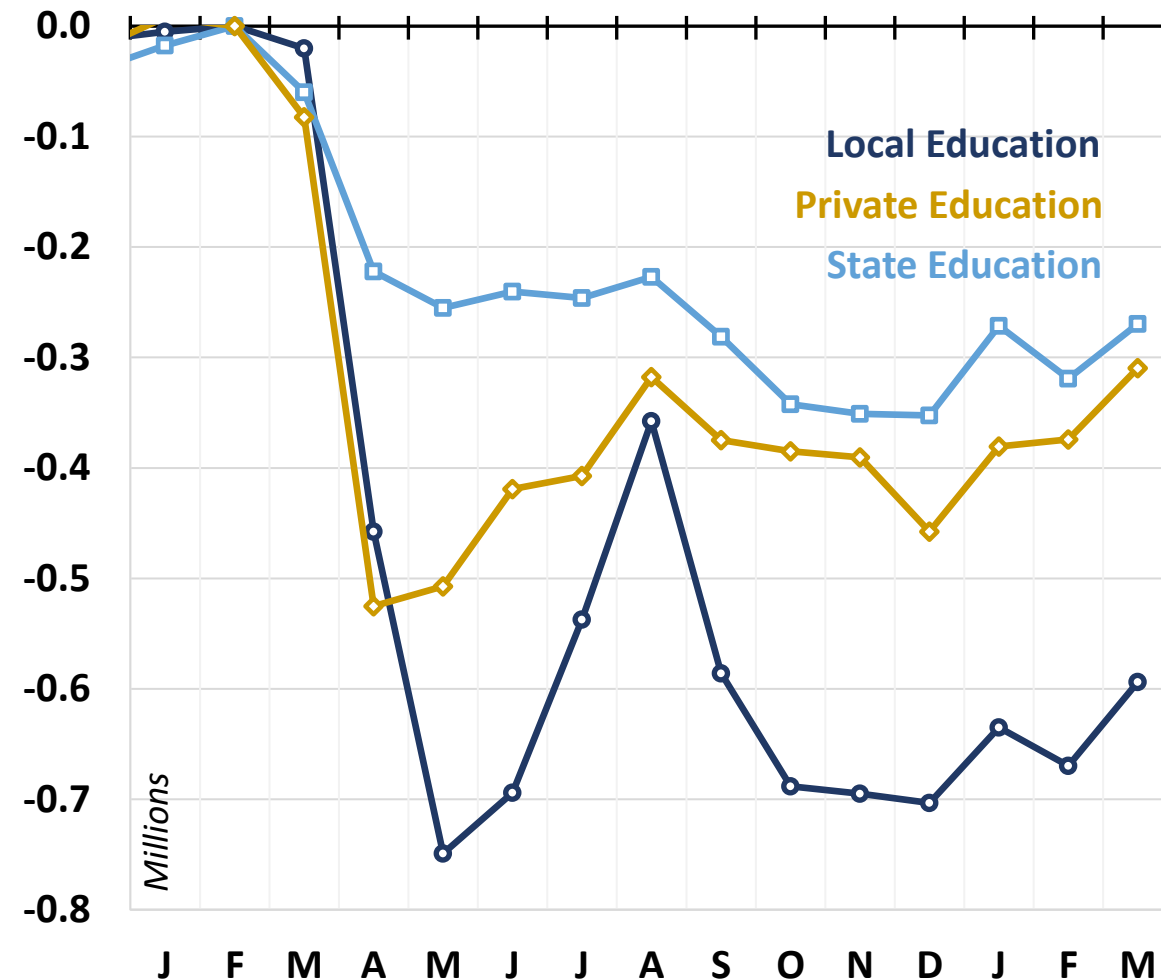
# LEISURE AND EDUCATION

STILL MISSING 8.4MM PAYROLLS; HARDEST-HIT SECTORS COULD SEE QUICK RECOVERY WITH RE-OPENINGS

## Nonfarm Payrolls Lost by Sector



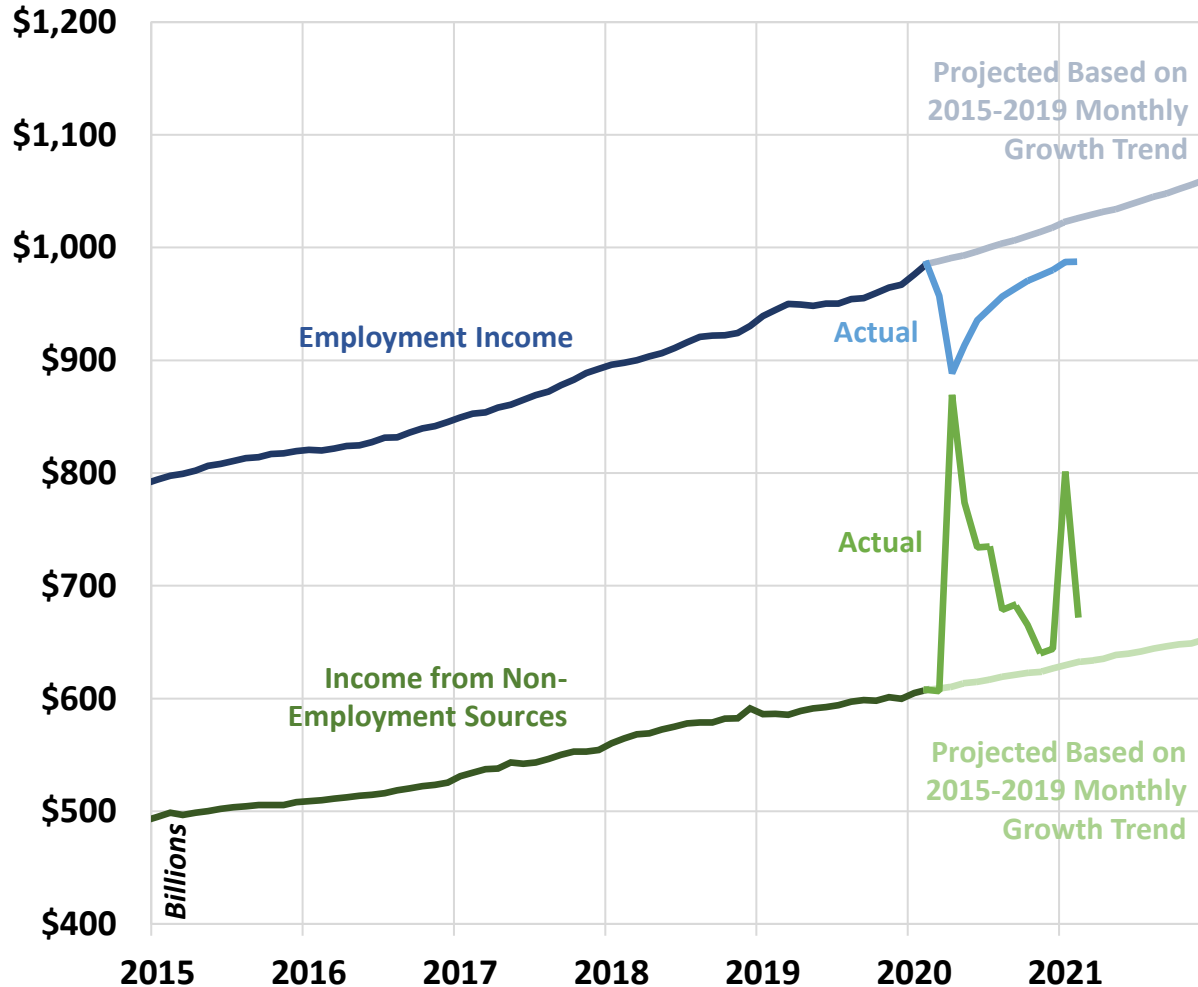
## Education Payrolls



# INCOME SOURCES

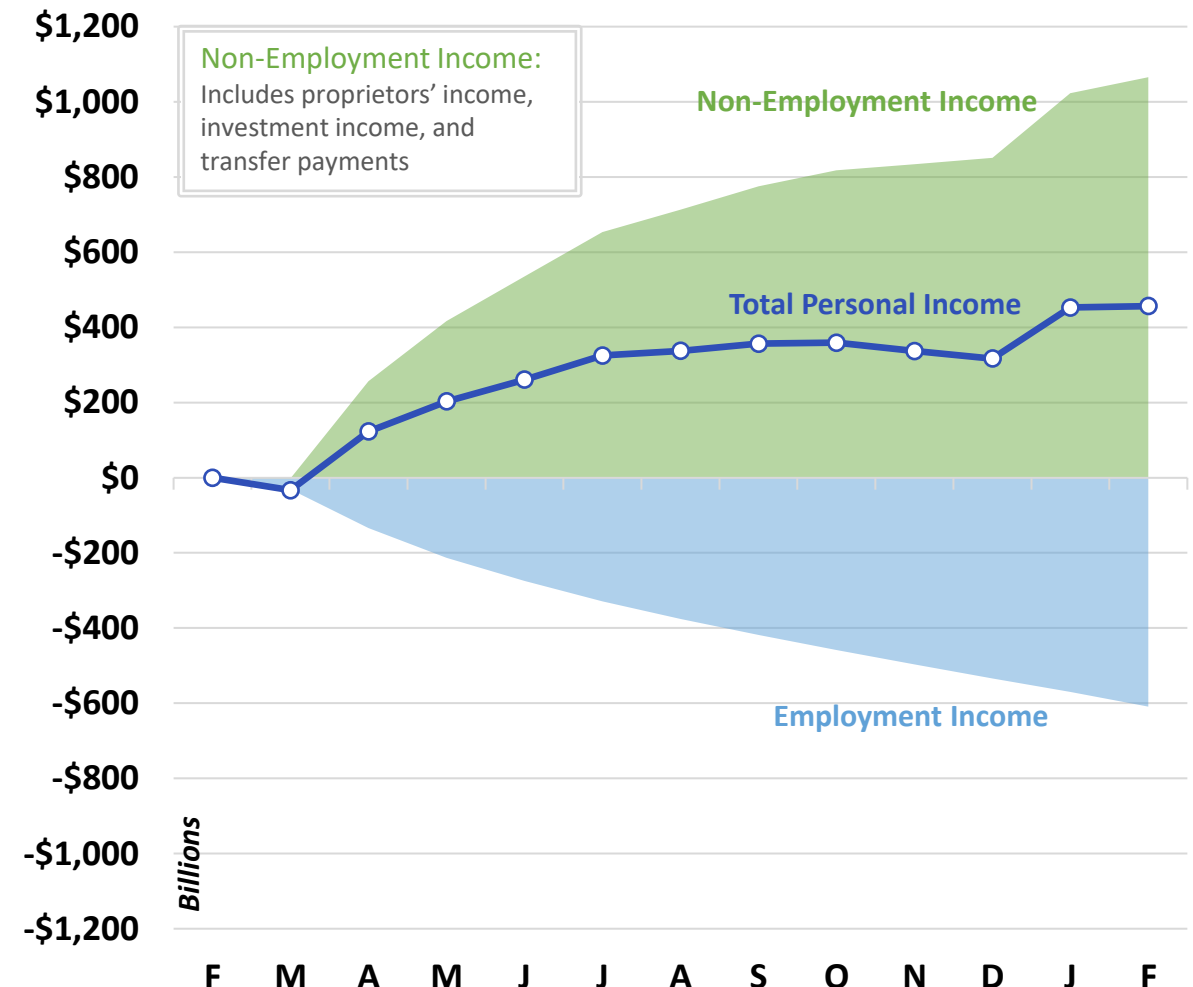
FEDERAL TRANSFERS CONTINUE TO MORE-THAN OFFSET LAGGING EMPLOYMENT INCOME

Employment and Non-Employment Income (Monthly)



Sources: Bureau of Economic Analysis, Vining Sparks

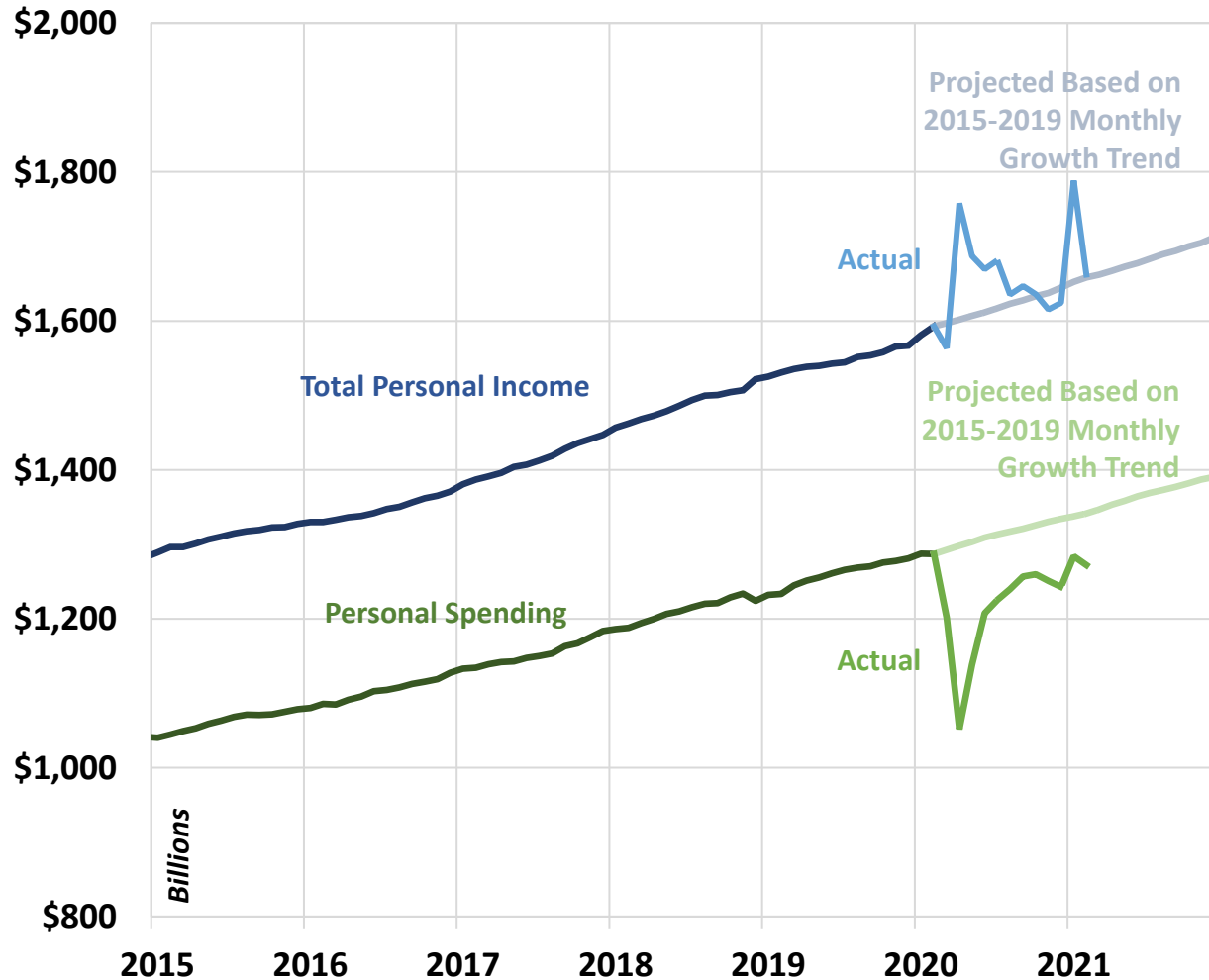
Cumulative Difference from Projected Since Feb. 2020



# EXCESS SAVINGS

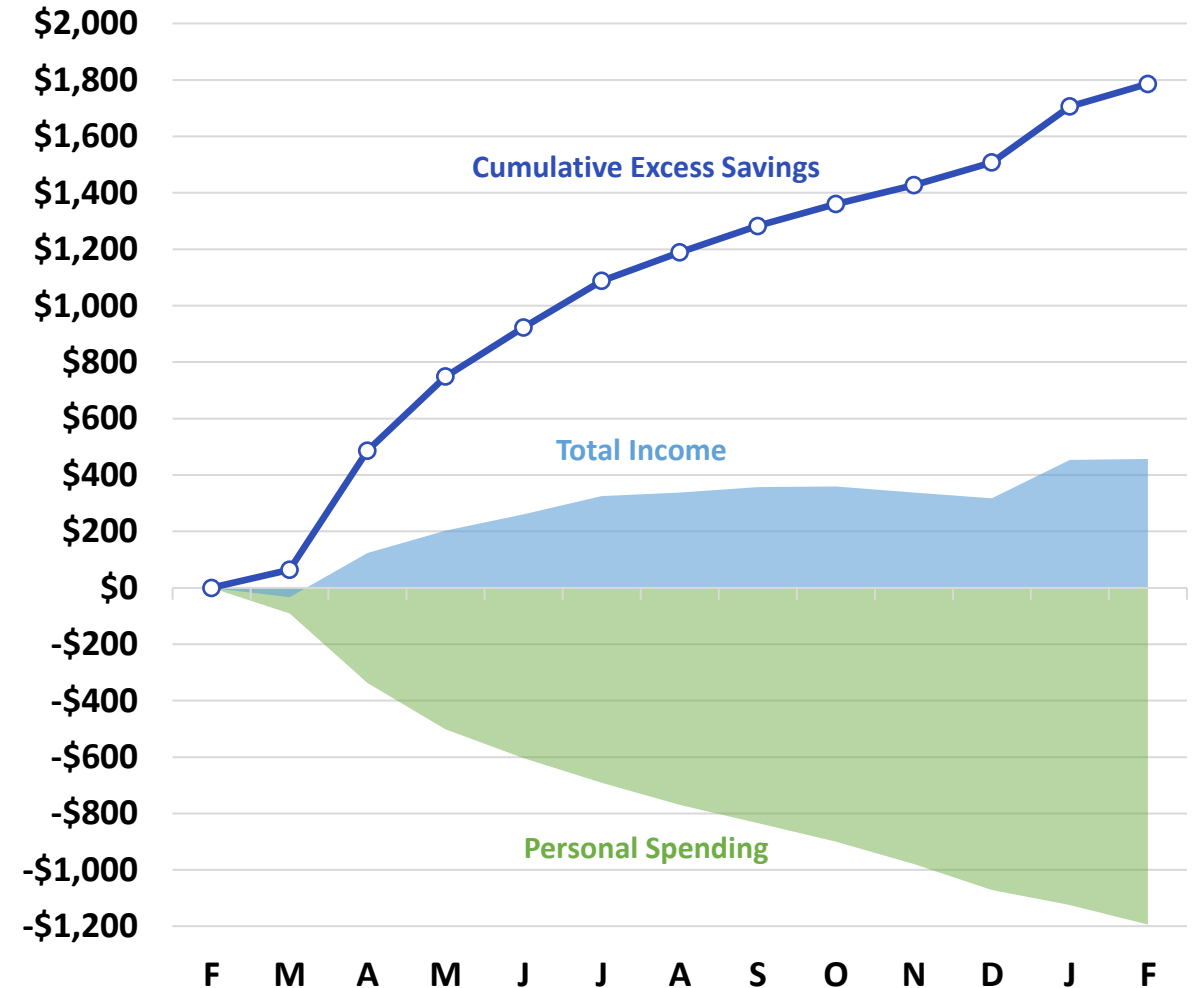
WITH INCOMES BOOSTED BY STIMULUS TRANSFERS AND SPENDING DOWN, SAVINGS UP \$1.8 TRILLION

Income and Spending (Monthly)



Sources: Bureau of Economic Analysis, Vining Sparks

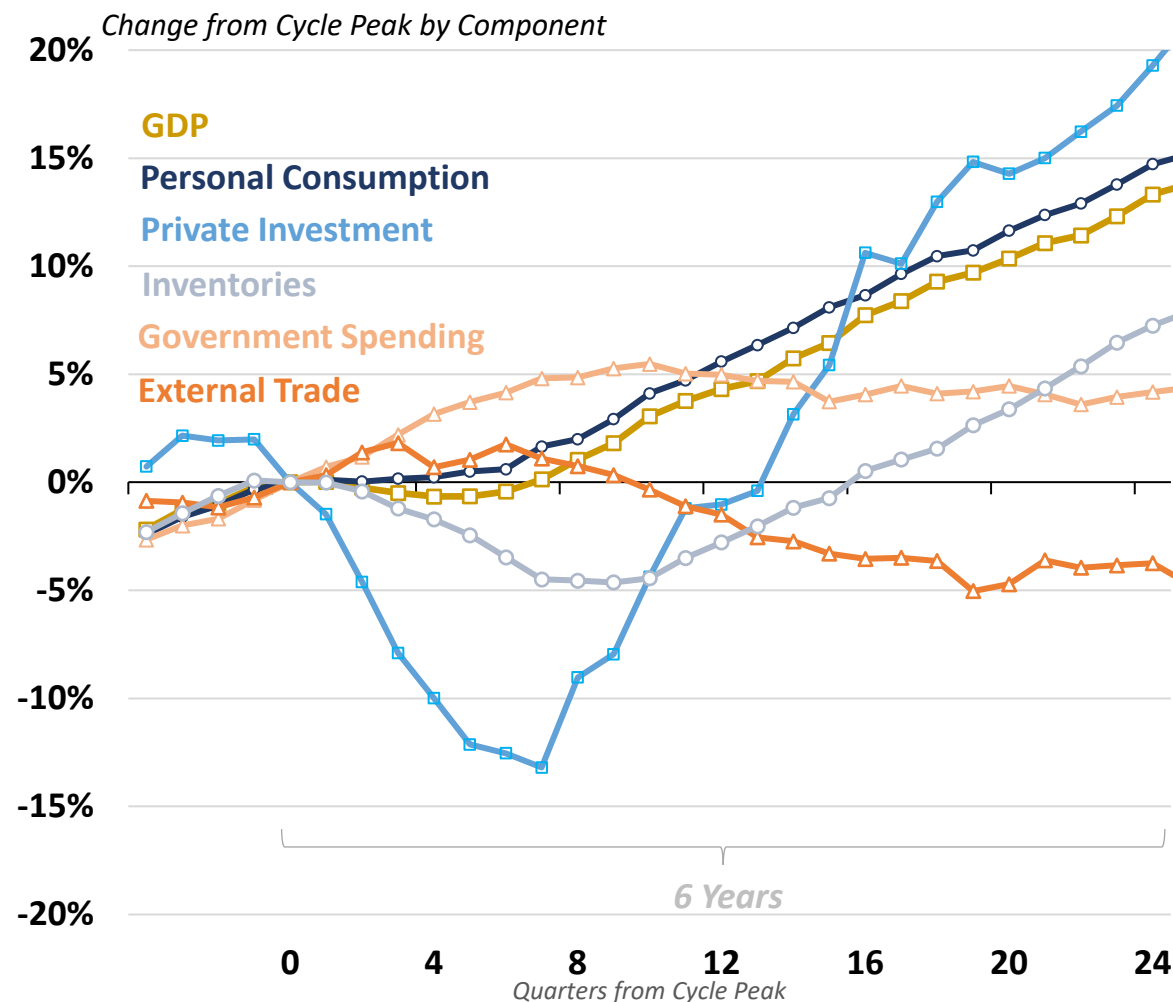
Cumulative Difference from Projected Since Feb. 2020



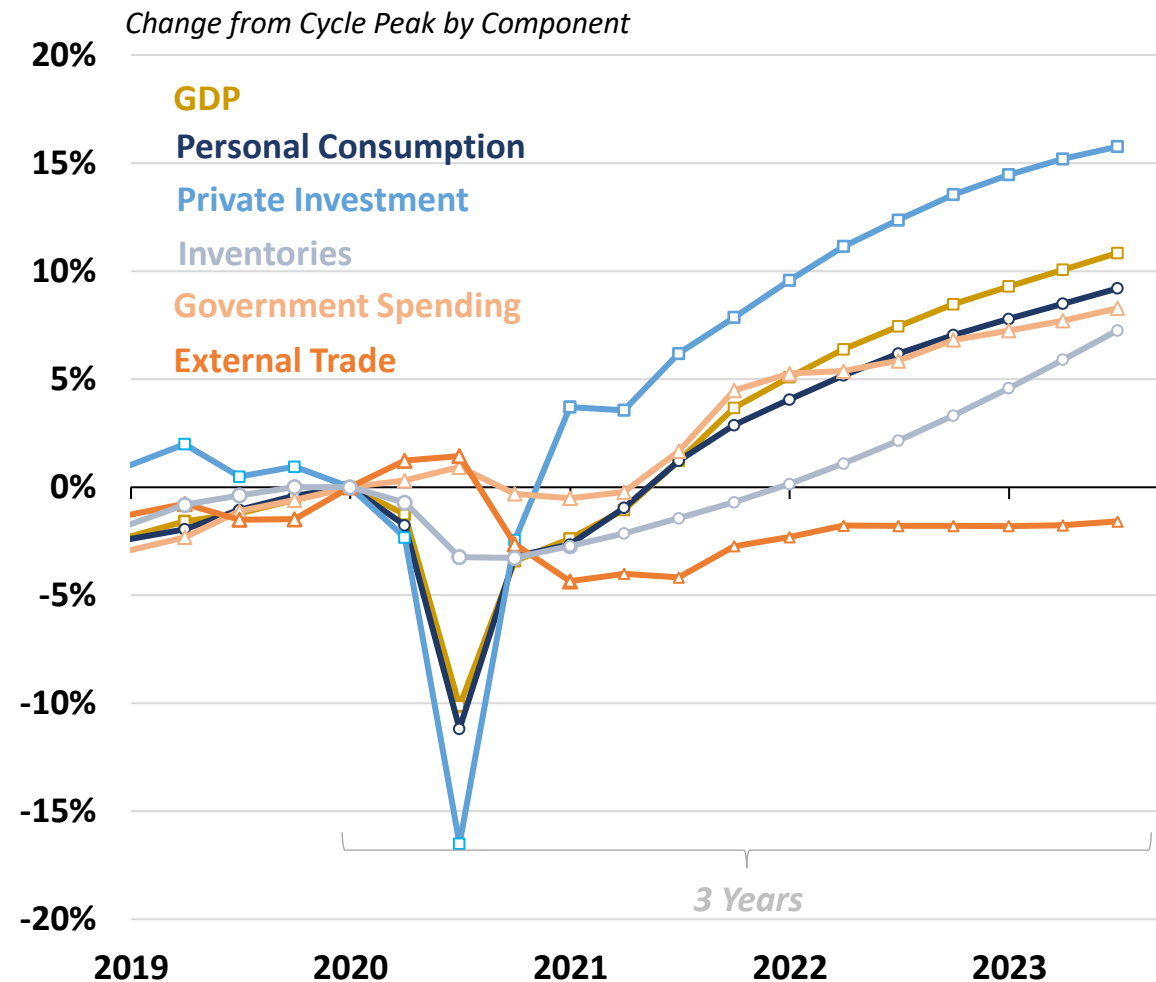
# FAST ECONOMIC CYCLE

MASSIVE STIMULUS AND FAST VACCINATION EFFORTS LEAVE ECONOMY POISED TO RECOVERY QUICKLY

## GDP During Average<sup>1</sup> Economic Cycle



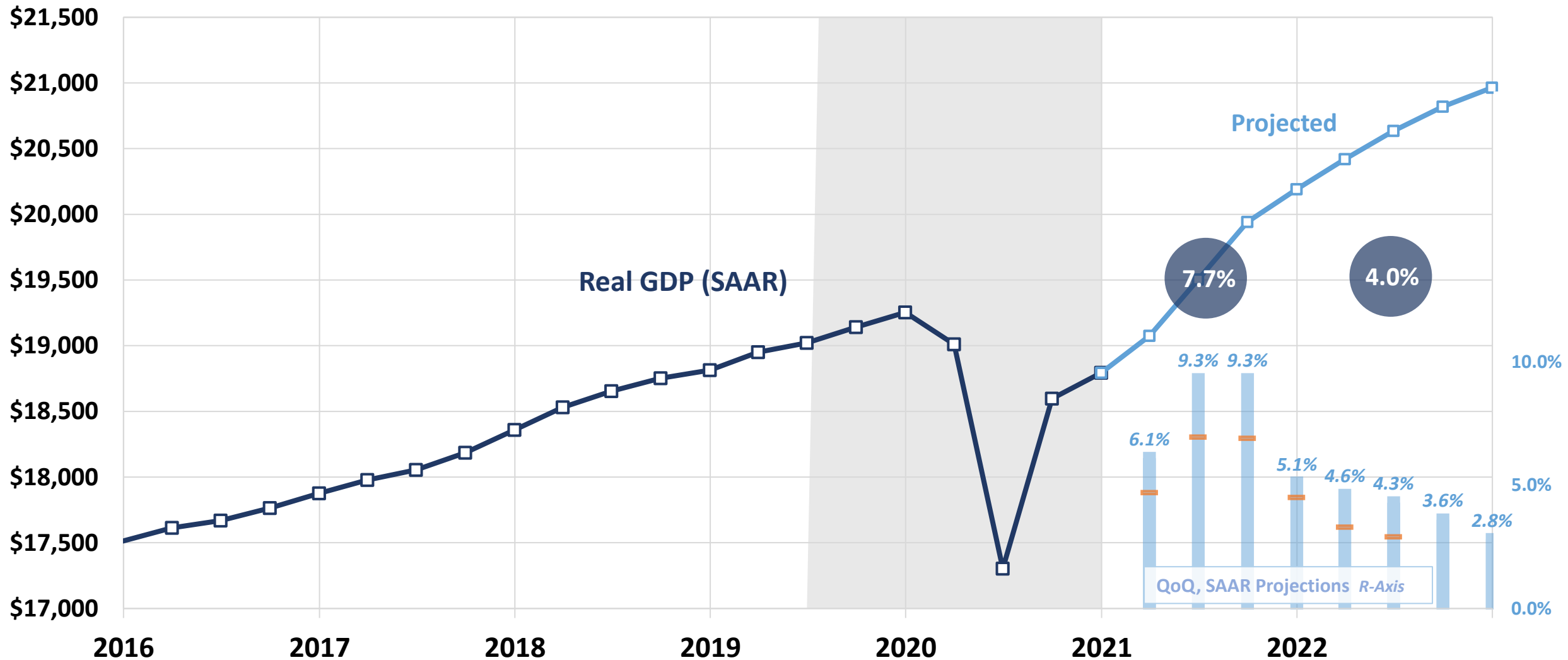
## GDP During Covid Pandemic





# GROSS DOMESTIC PRODUCT

UPDATED PROJECTIONS REFLECT ELECTION OUTCOME, ADDITIONAL STIMULUS, VACCINES, MORE STIMULUS

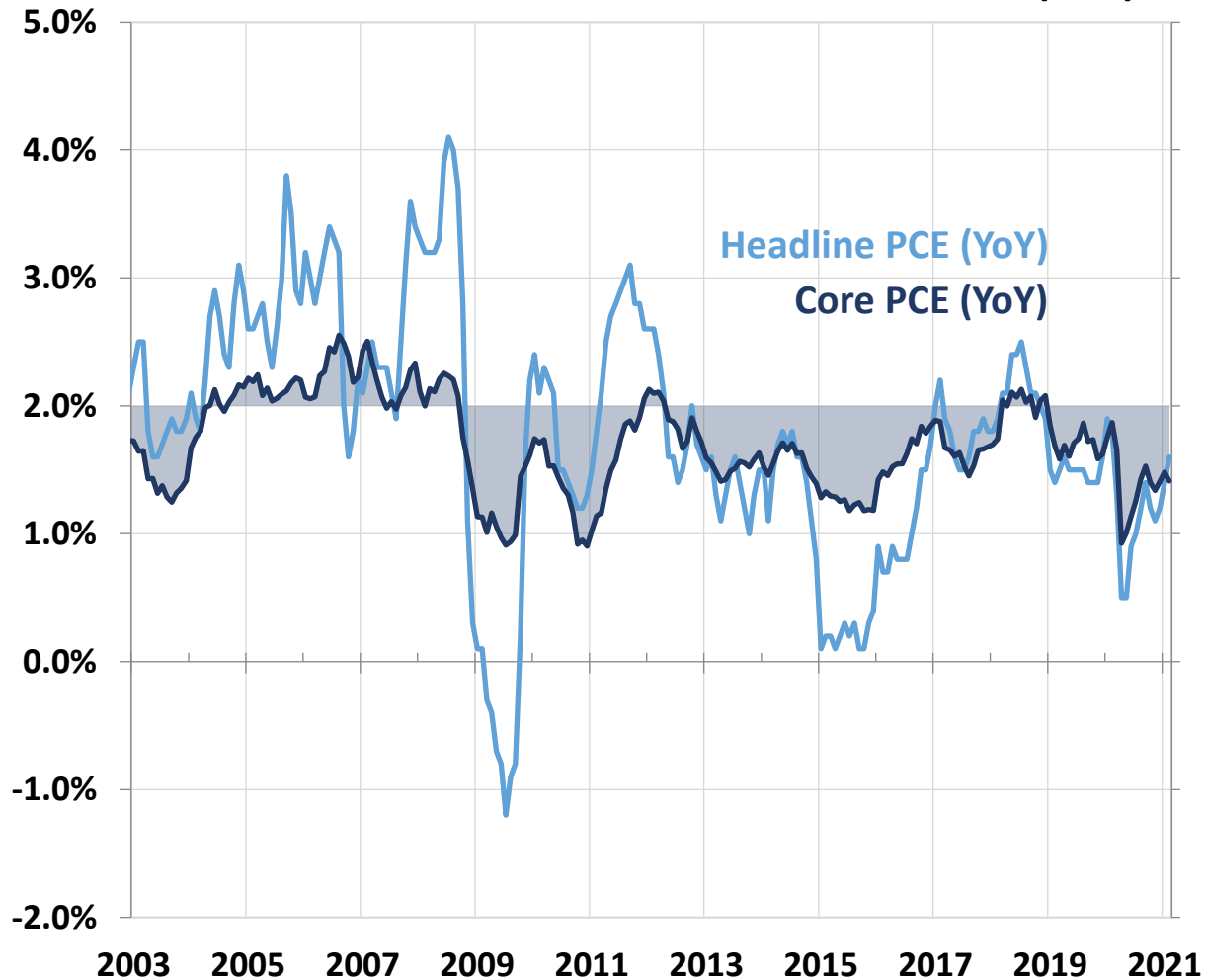


# RISING INFLATION CONCERNS

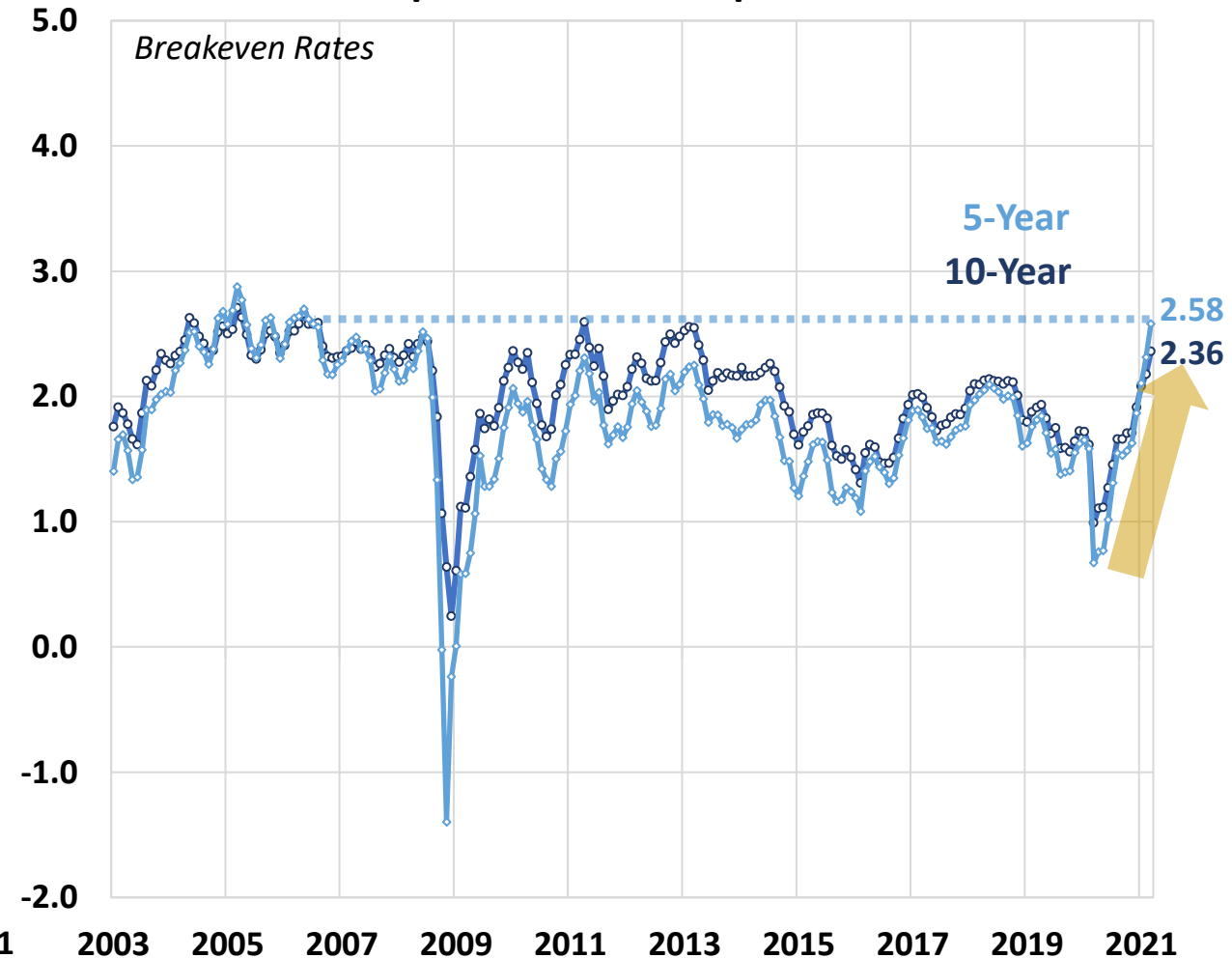


DESPITE DECADE OF MISSING INFLATION TARGET, CONCERNS GROWING OVER AMOUNT OF STIMULUS

## Headline and Core Consumer Price Inflation (PCE)



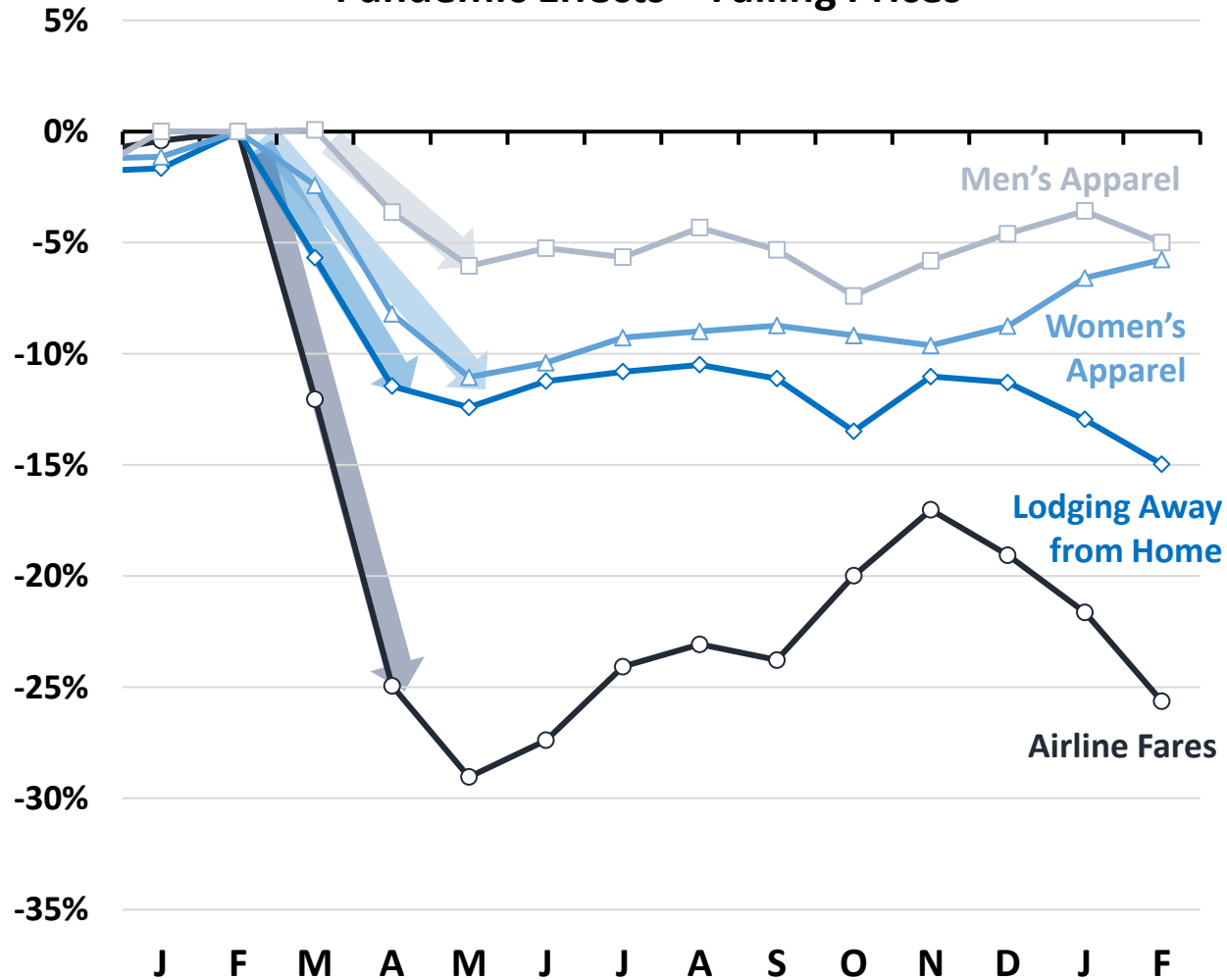
## TIPS Implied Inflation Expectations



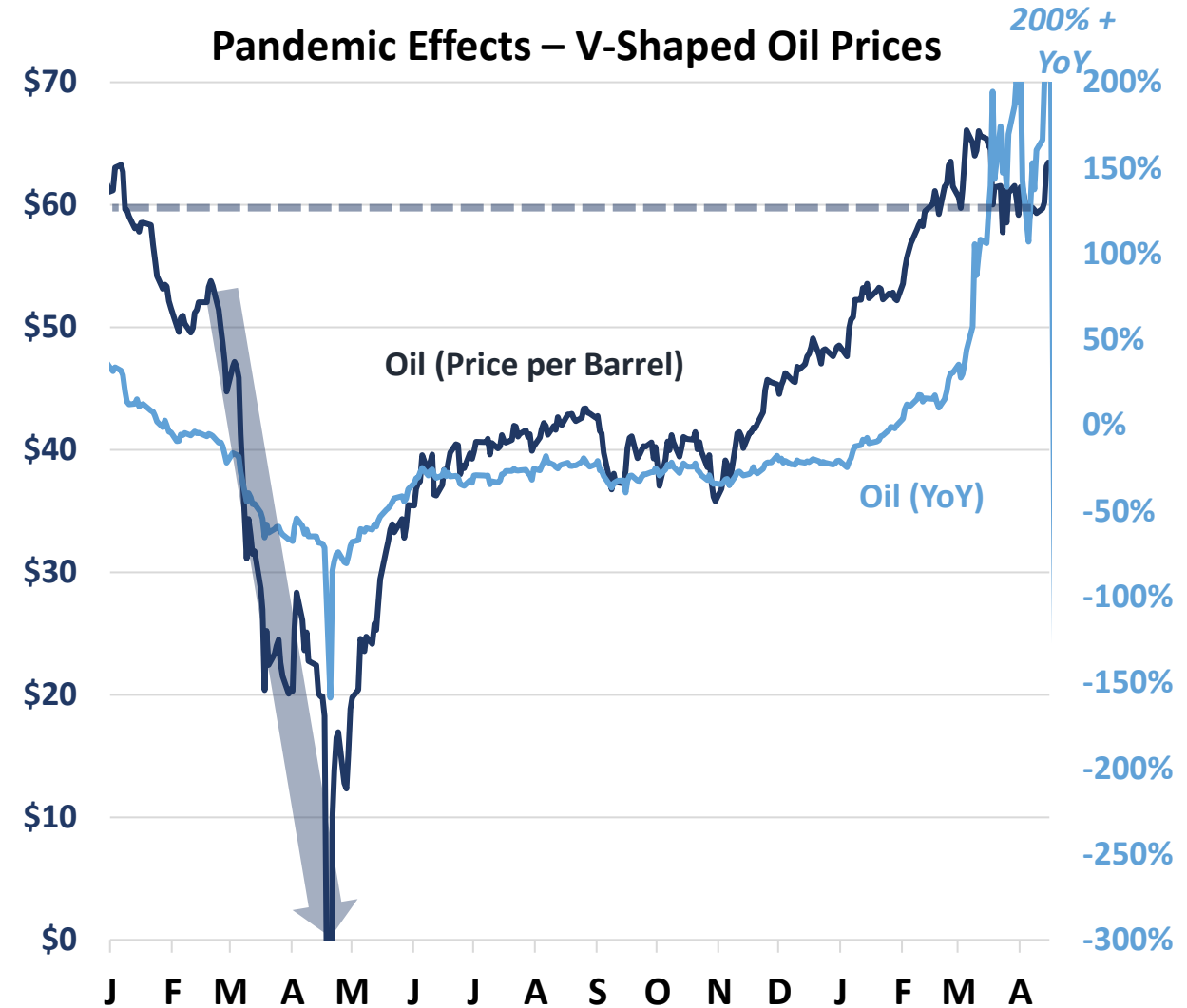
# PANDEMIC PRICES

UNWINDING OF TEMPORARY DECLINE IN SOME CATEGORIES WILL PUSH YOY CALCULATIONS HIGHER

## Pandemic Effects – Falling Prices

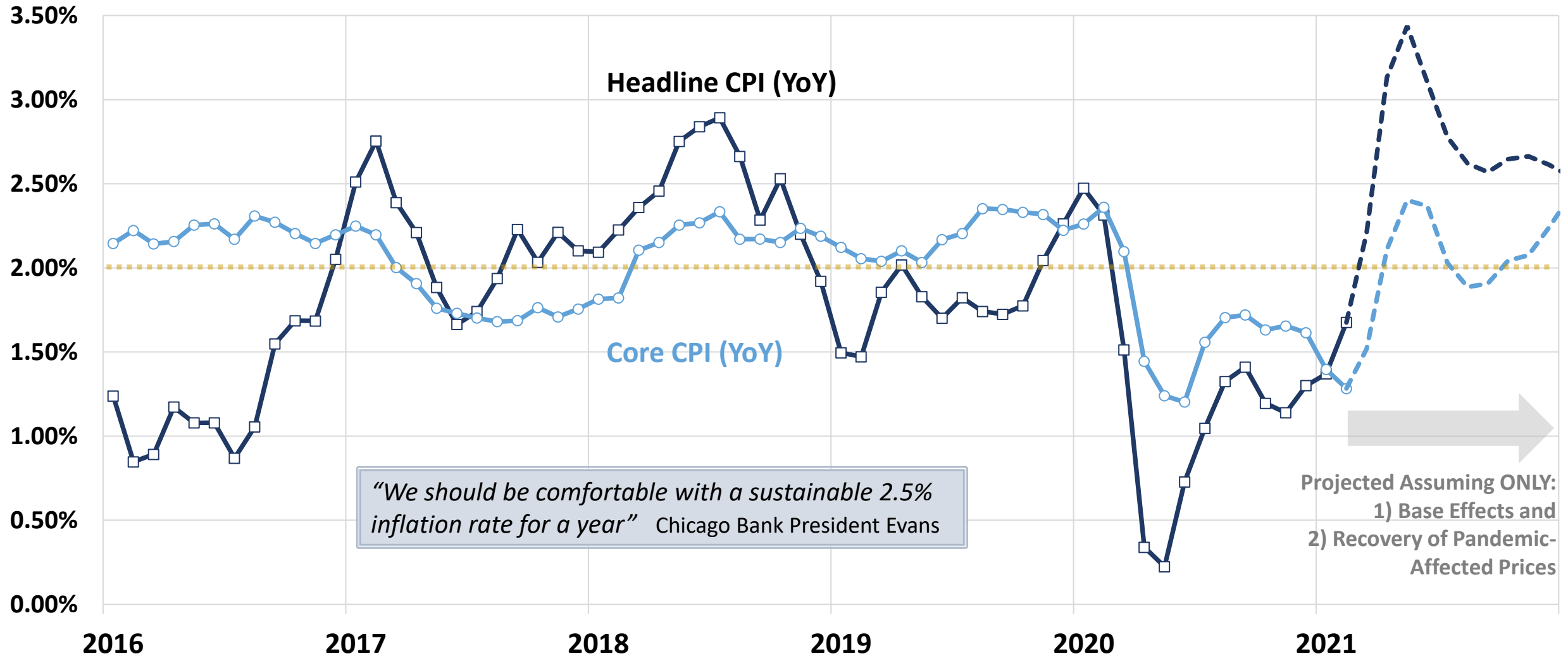


## Pandemic Effects – V-Shaped Oil Prices



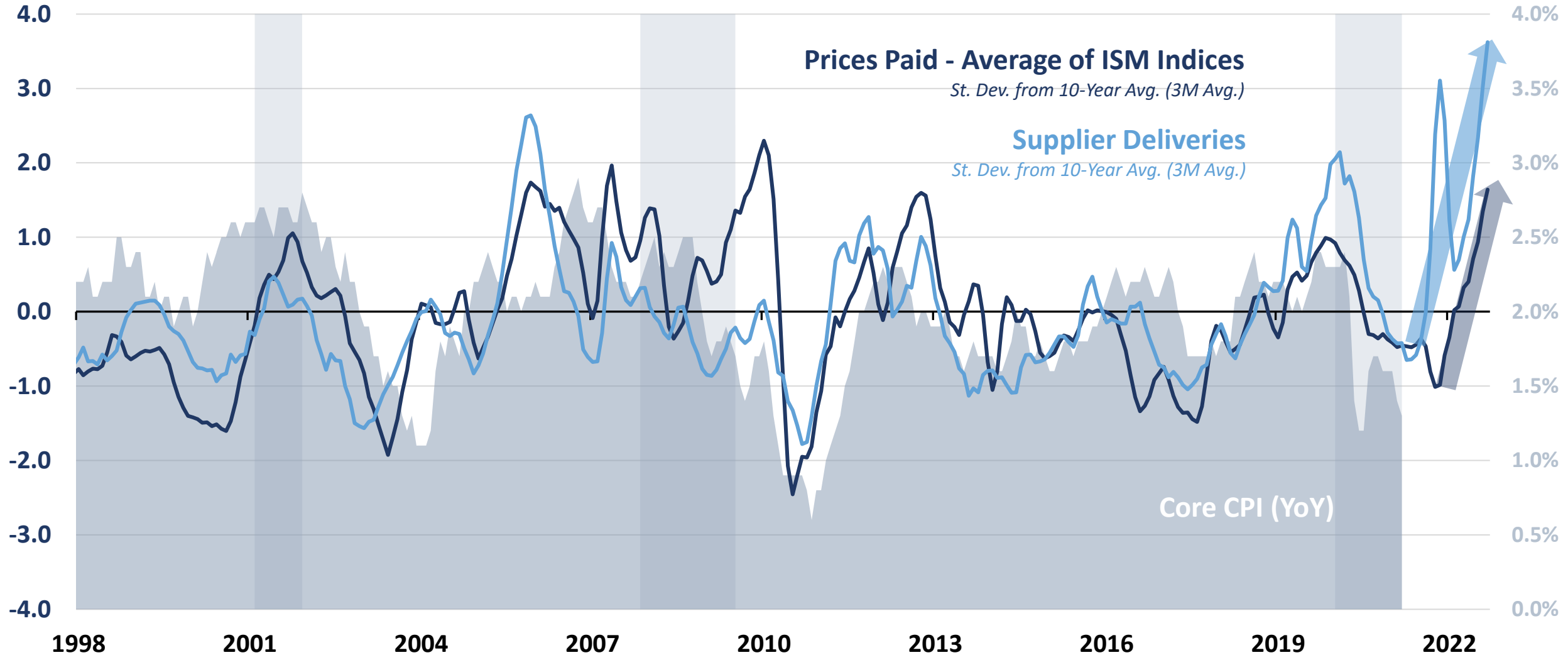
# BASE EFFECTS

UNWINDING OF TEMPORARY DECLINE IN SOME CATEGORIES WILL PUSH YOY CALCULATIONS HIGHER



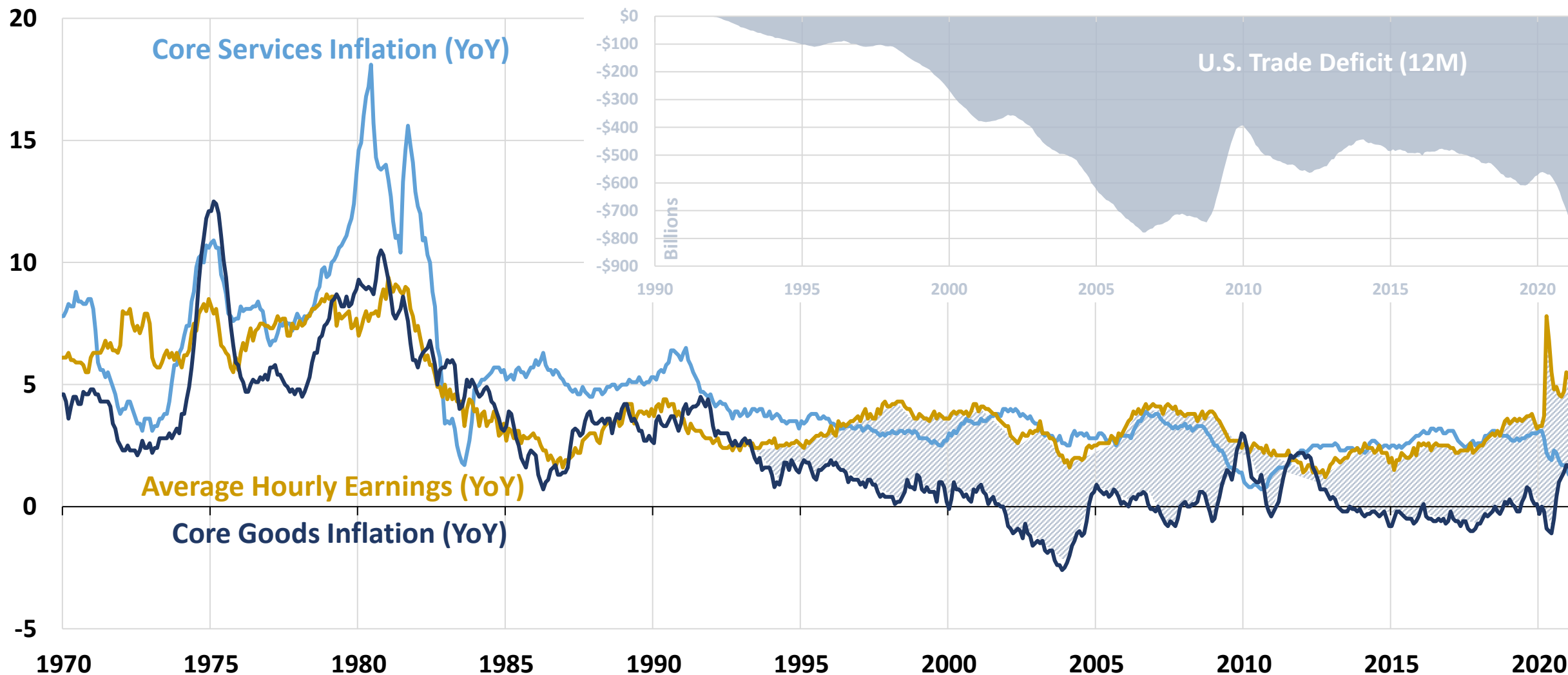
# SUPPLY CHAIN DISRUPTIONS

PANDEMIC HAS CAUSED SUPPLY CHAIN DISRUPTIONS, EXPECT THOSE TO BE TEMPORARY



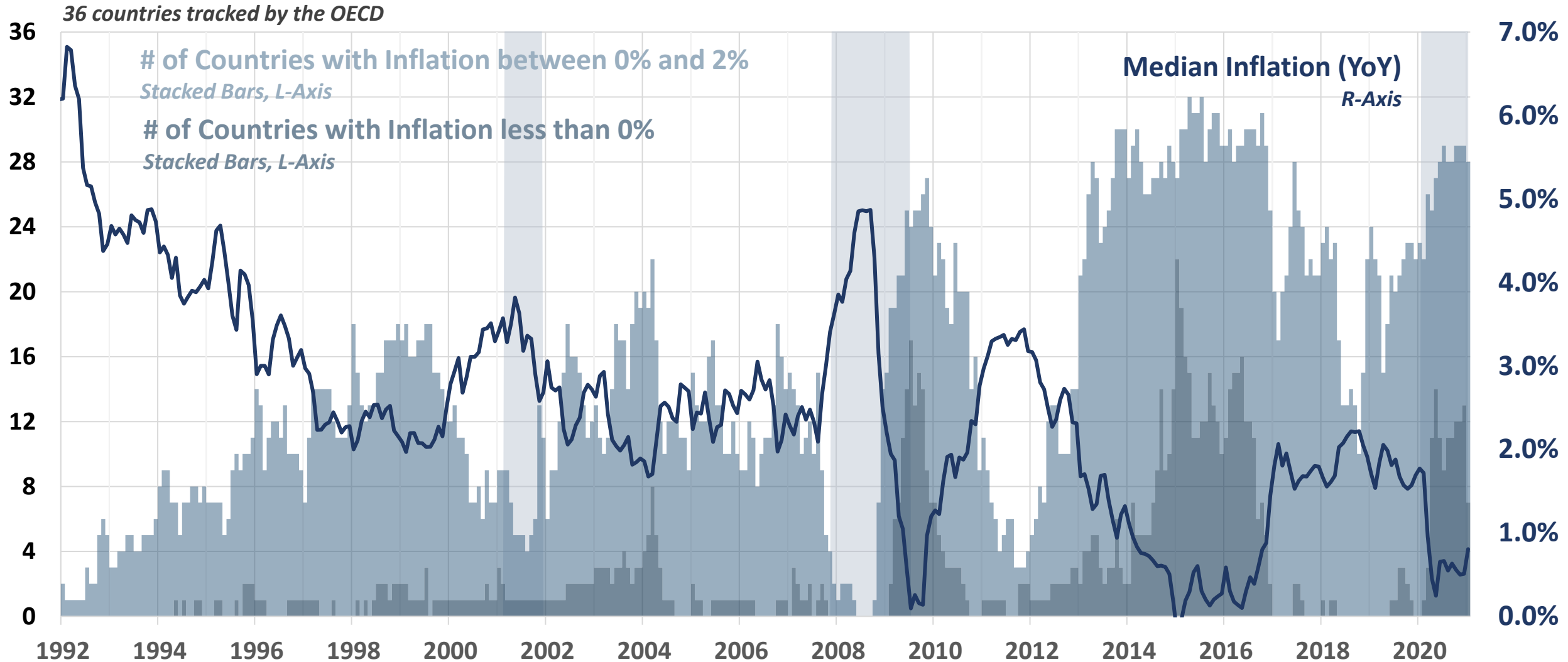
# GLOBALIZATION OF GOODS

PHILLIPS CURVE HAS BEEN FLATTENED BY GLOBALIZATION, EVIDENCED BY INELASTICITY OF GOODS PRICES



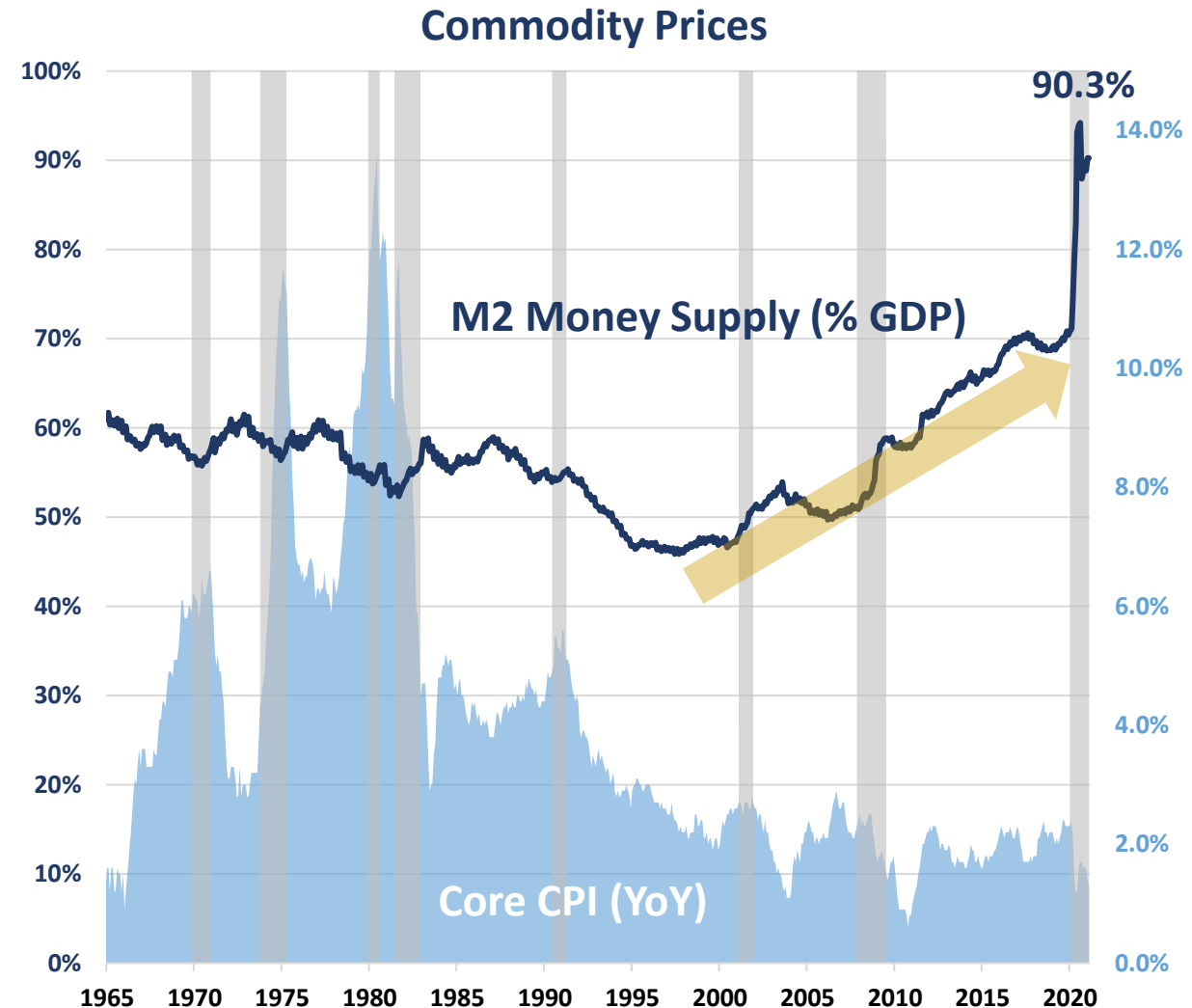
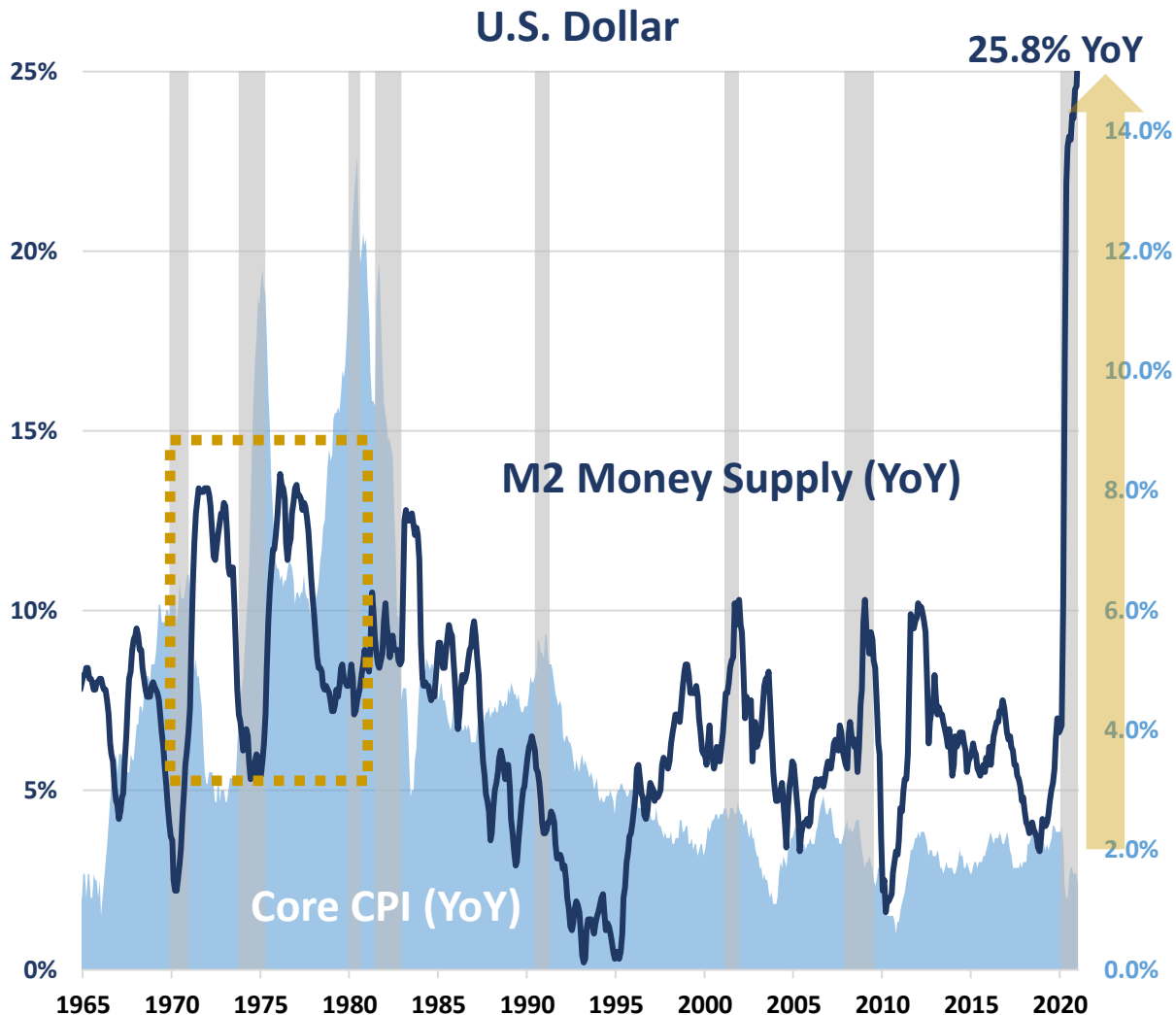
# GLOBAL DISINFLATION

FED HAS REPEATEDLY POINTED TO STRONG GLOBAL DISINFLATIONARY FORCES KEEPING PRICES SUBDUED



# MONEY SUPPLY

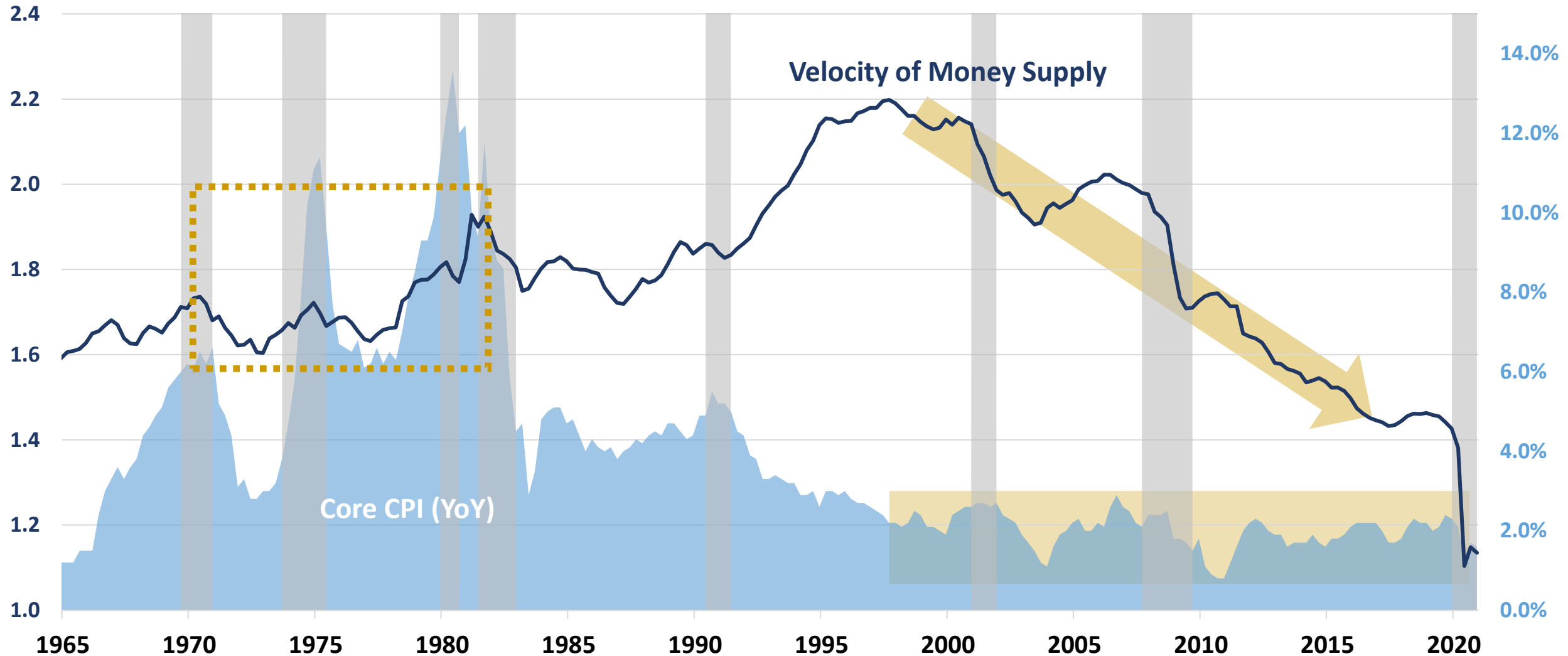
MONETARIST THEORY PORTENDS RISE IN INFLATION, BUT TREND PRE-DATES CURRENT SPIKE BY 25 YEARS





# VELOCITY OF MONEY SUPPLY VINING SPARKS

ABSENCE OF CREDIT DEMAND / CREATION HAS LED TO SLOWER VELOCITY, LESS PRICE PRESSURE

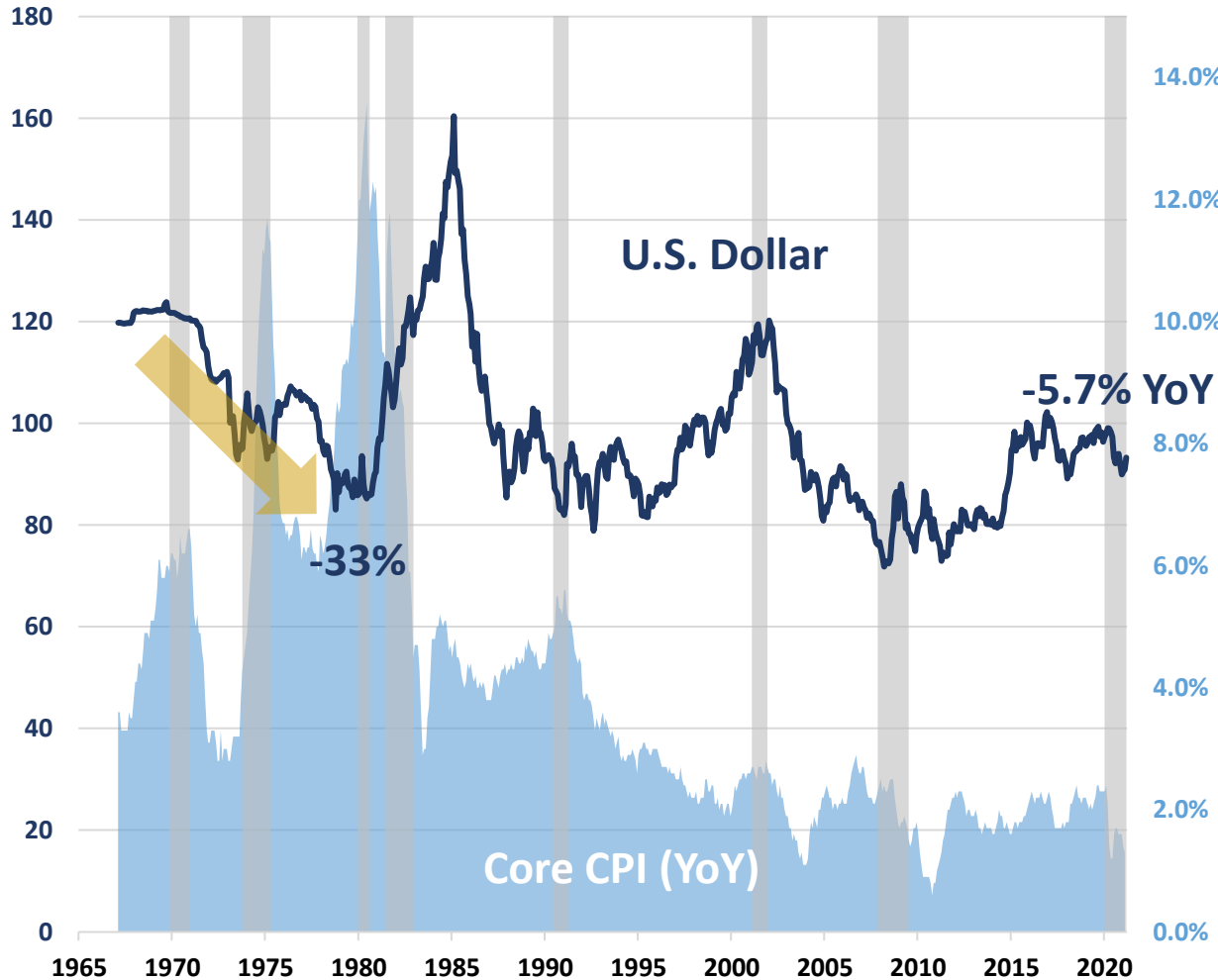


Sources: Federal Reserve, BLS, Vining Sparks

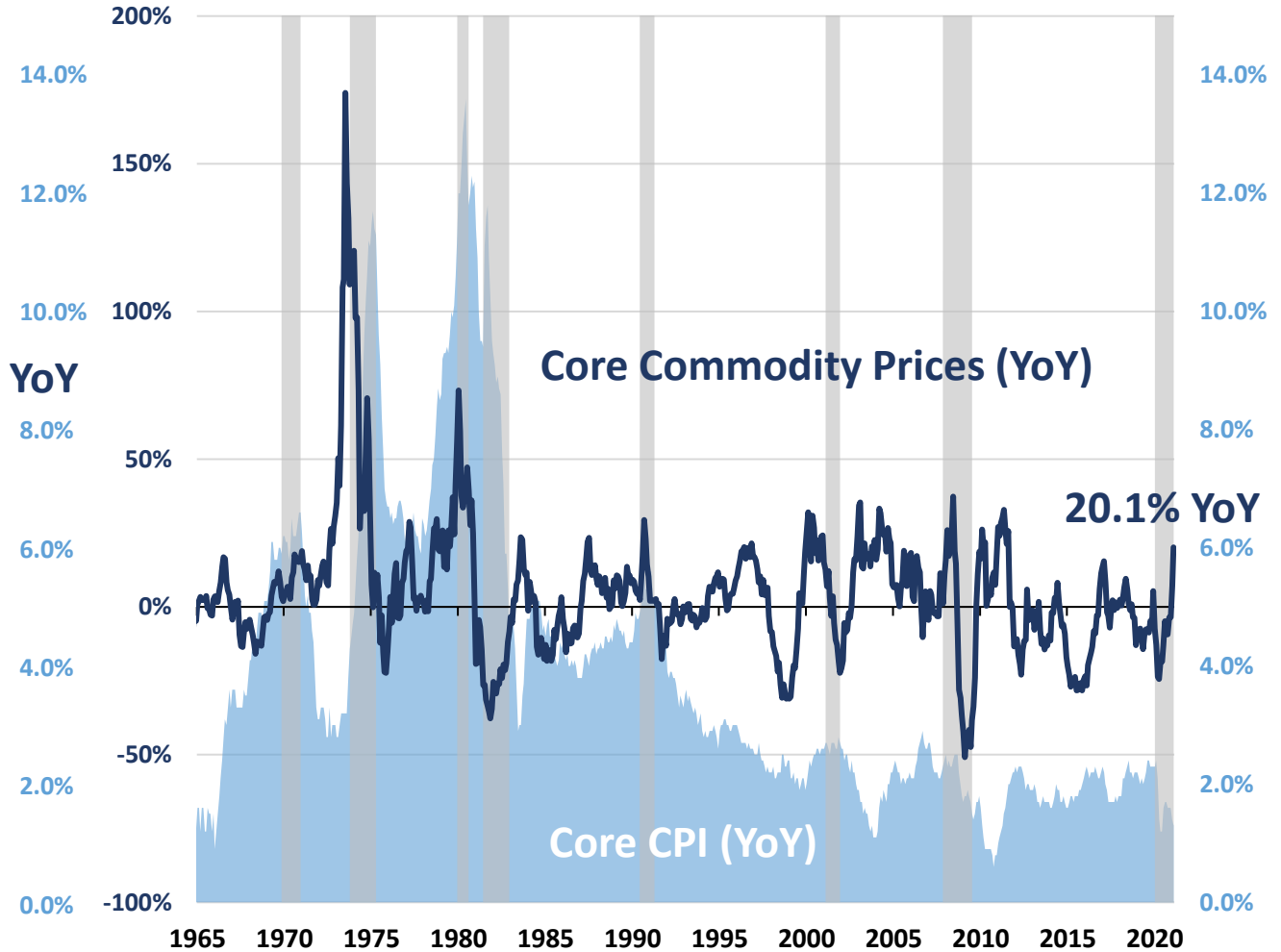
# SOURCES OF INFLATION

FUNDAMENTALLY DIFFERENT ENVIRONMENT FOR THE DOLLAR TODAY THAN IN THE SEVENTIES

U.S. Dollar

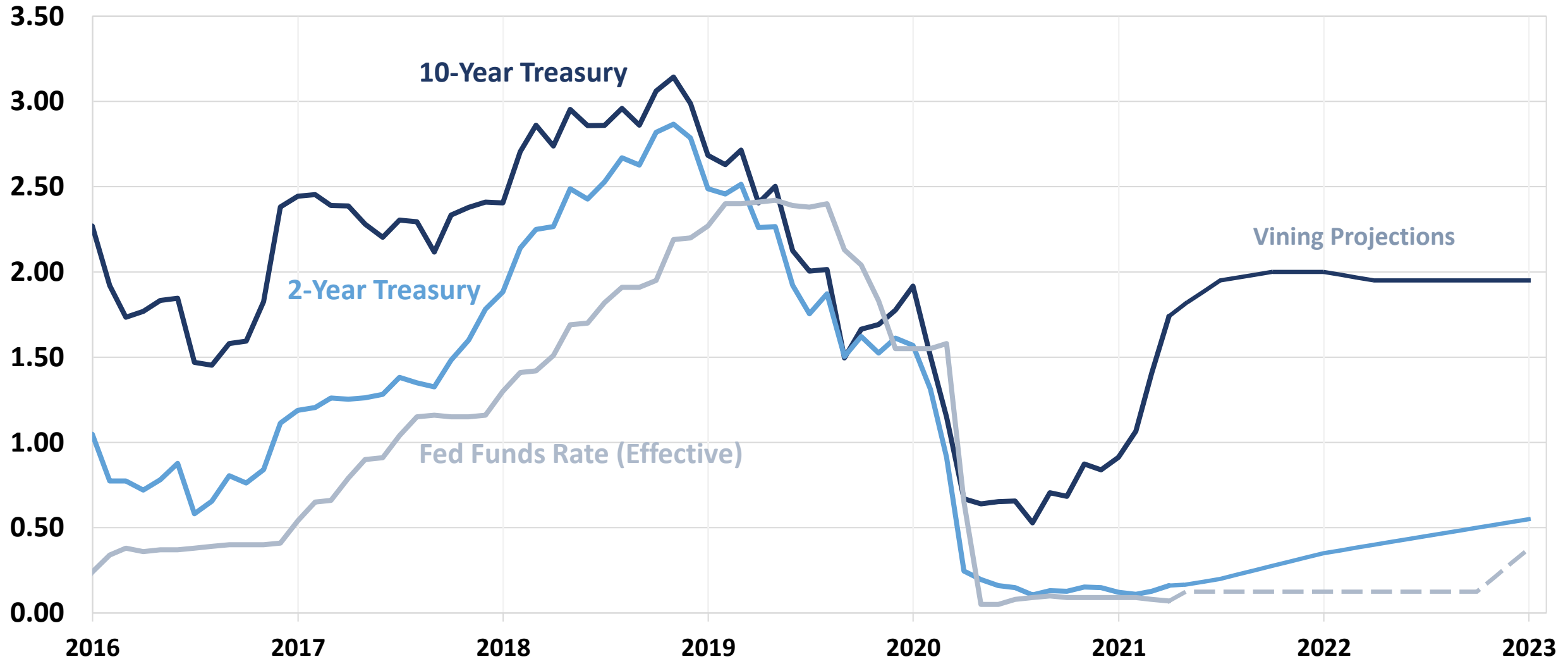


Commodity Prices



# INTEREST RATES

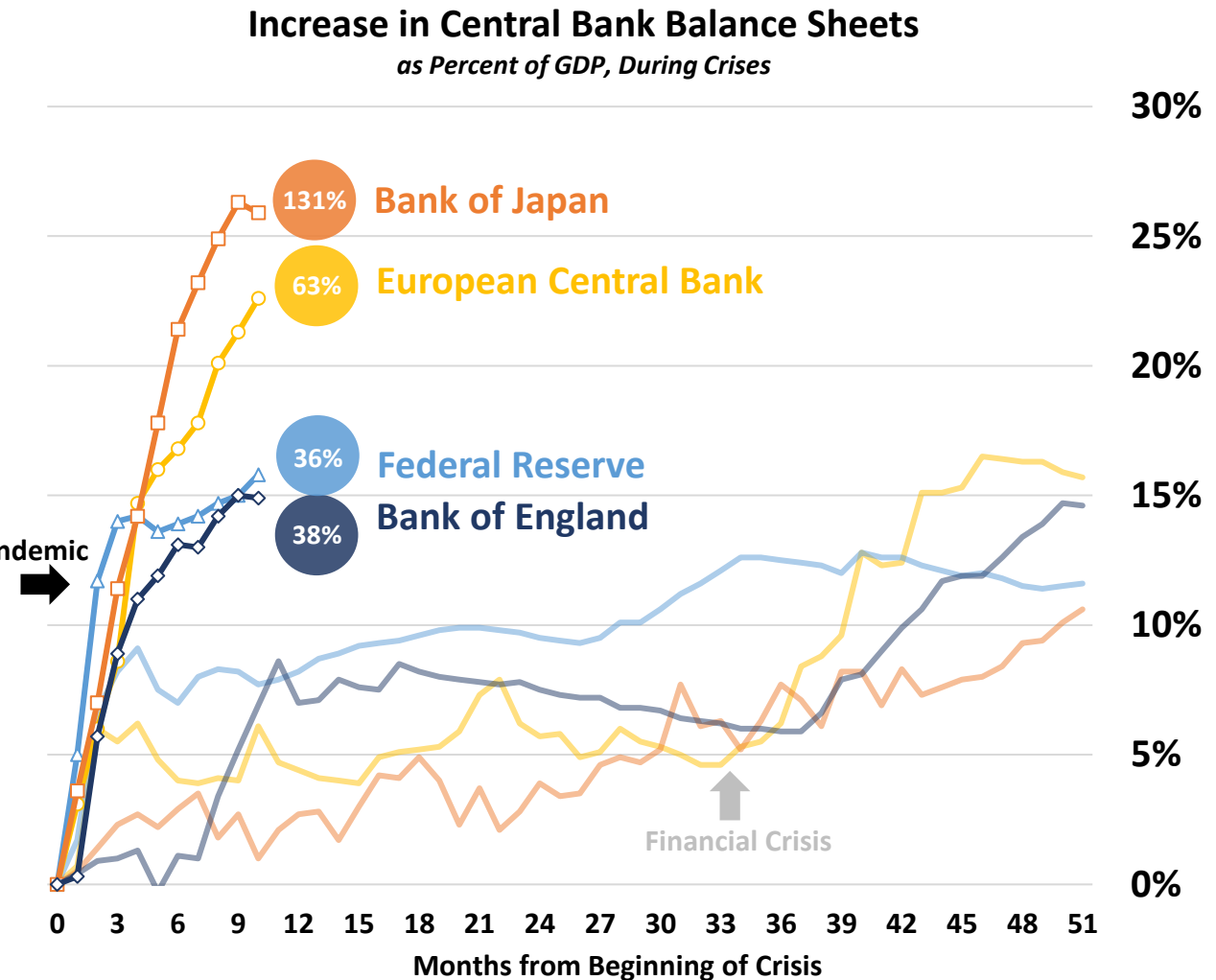
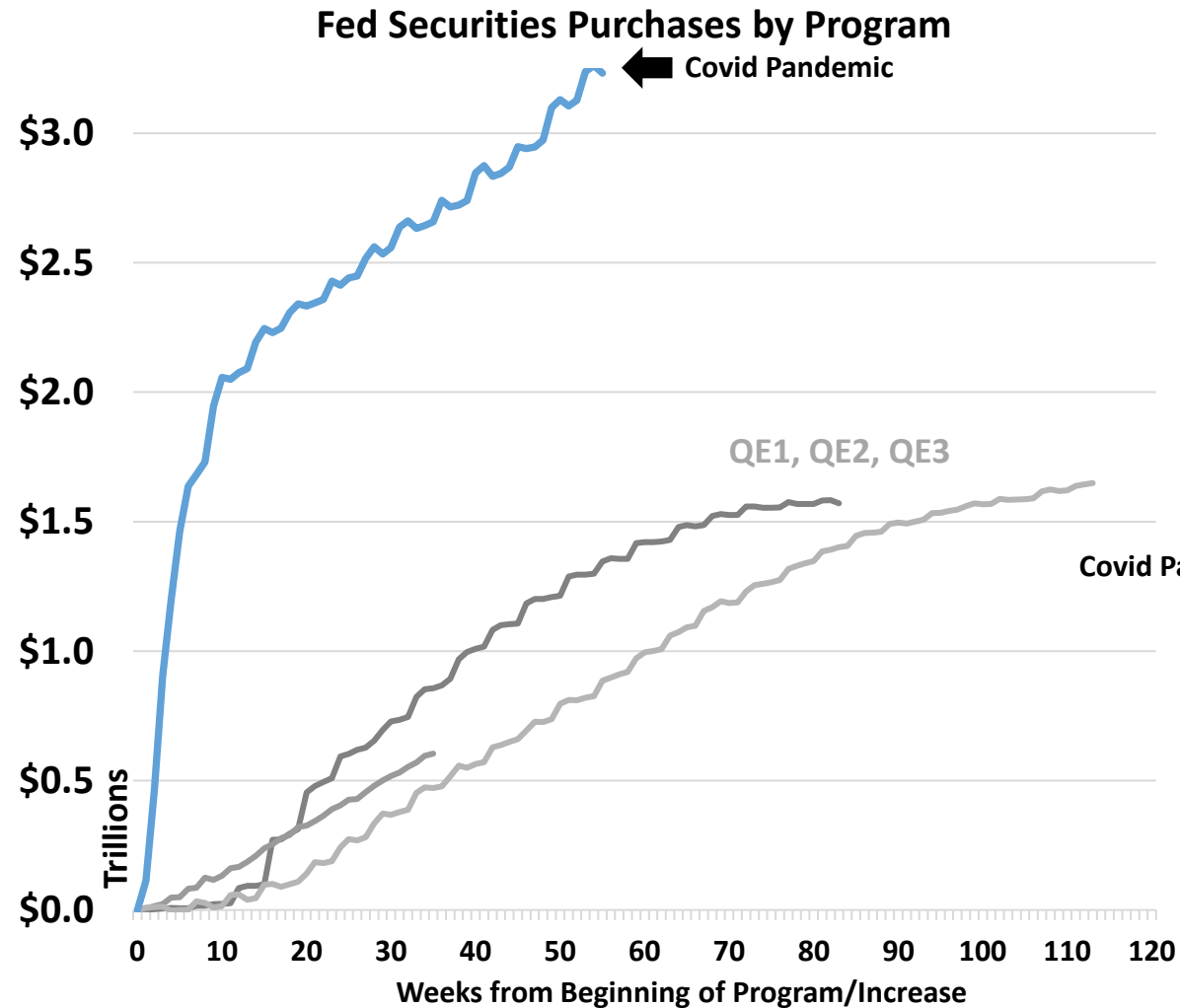
UPDATED PROJECTIONS REFLECT ELECTION OUTCOME, ADDITIONAL STIMULUS, VACCINES, MORE STIMULUS



Sources: Bloomberg, Vining Sparks February Projections, December Bloomberg Survey of Economists

# CENTRAL BANK ERA

DRAMATIC INCREASE IN CENTRAL BANK BALANCE SHEETS DWARFED RESPONSES TO FINANCIAL CRISIS

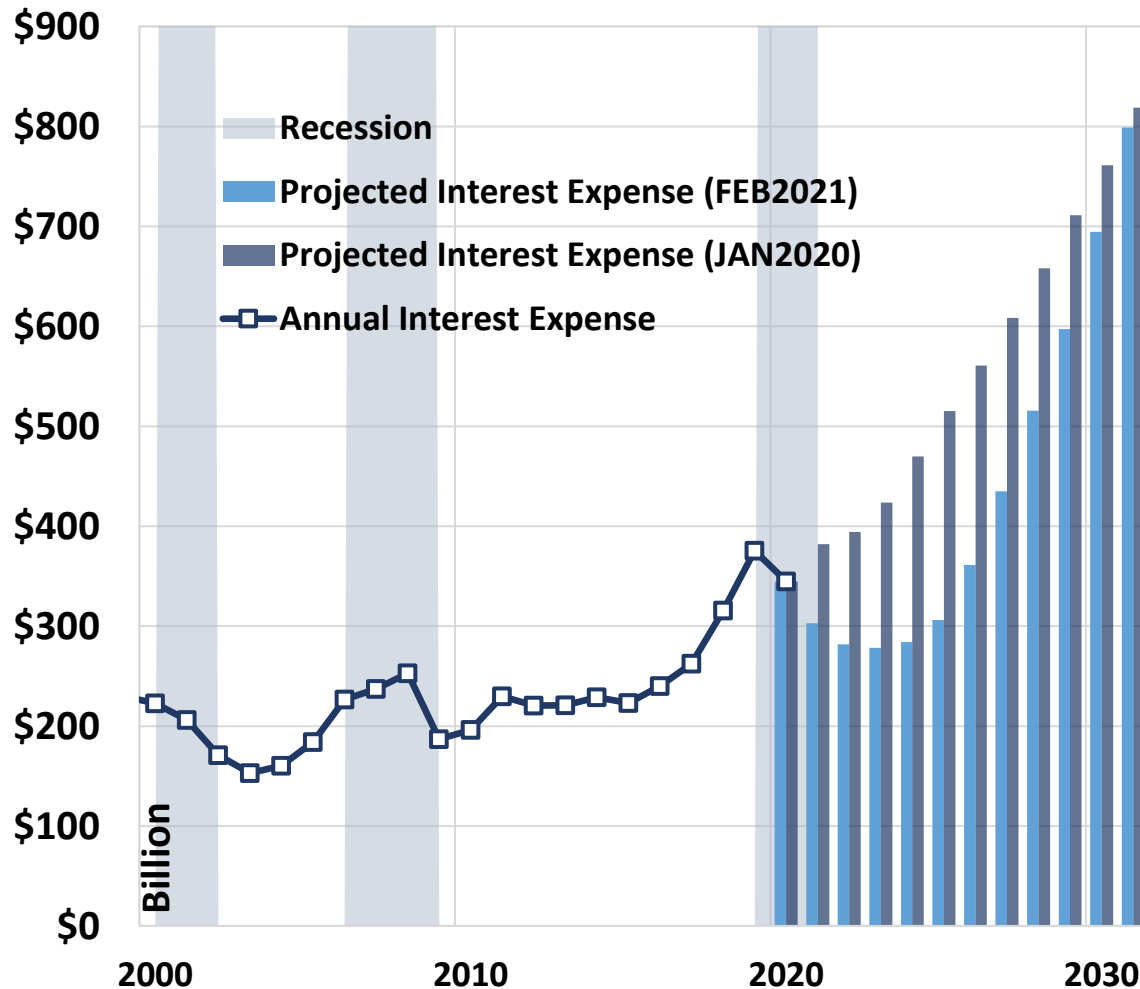


# CBO PROJECTIONS

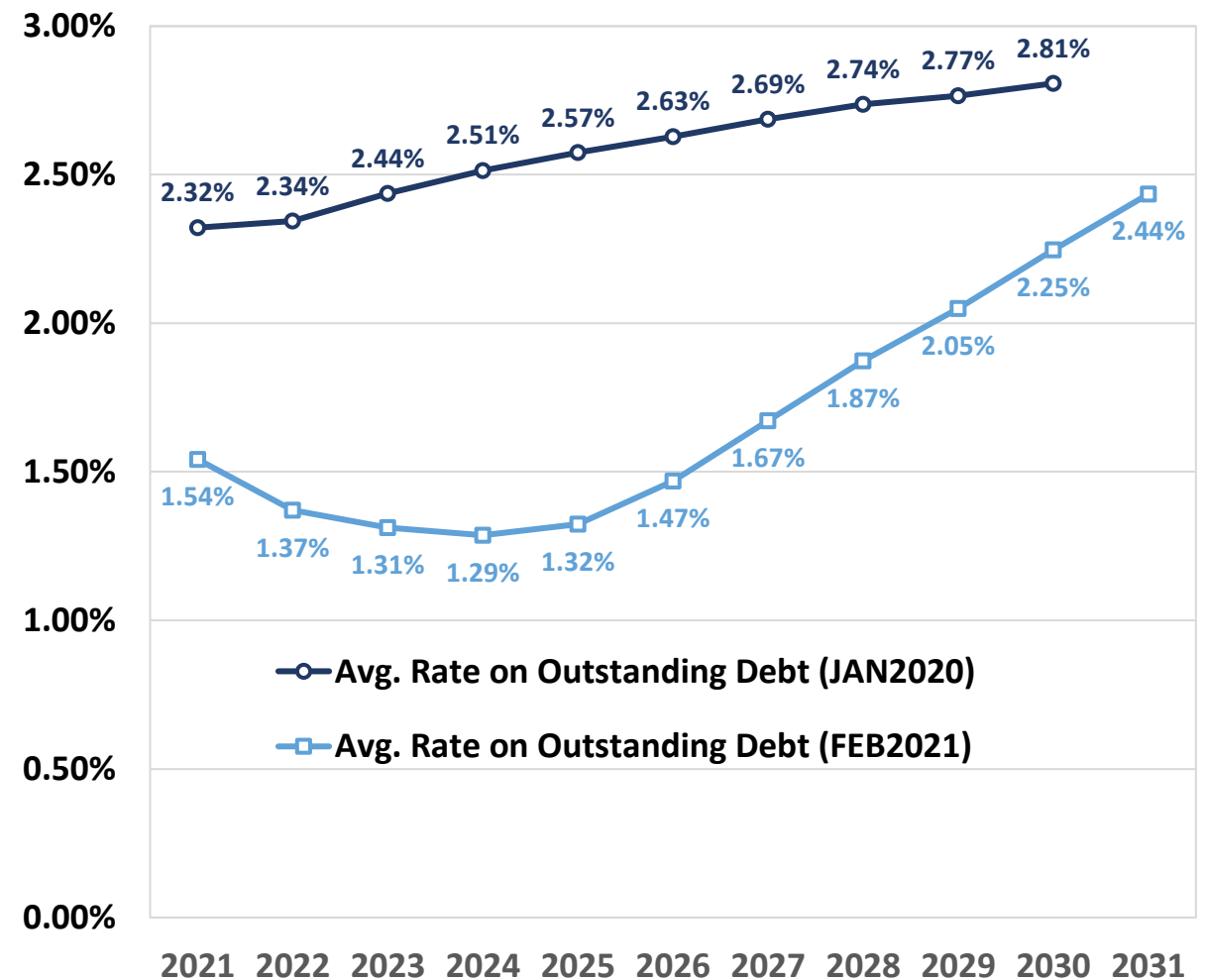
## FEDERAL INTEREST EXPENSE PROJECTIONS AND AVERAGE RATE ON DEBT



### Projected Federal Interest Expense



### Projected Average Rate on Outstanding Debt



Source: CBO 10-Year Budget Projections; Vining Sparks

# ECONOMIC OUTLOOK

PIECES IN PLACE FOR STRONG ECONOMIC RECOVERY ONCE VIRUS SUCCESSFULLY CONTAINED

## U.S. OVERVIEW

- 2020 elections changed outlook for stimulus, now \$1.9T additional stimulus to boost recovery
- Vaccinations have proven faster, more effective than expected allowing faster re-openings
- Consumer poised to drive growth faster with pent-up savings and an improving health situation
- Going forward, inflation and rising rates likely to be challenges for sustaining rapid growth rate
- Growth and rate forecast risks have moved from low side to high side

## CONSUMER

- Consumer has, thus far, been insulated from abrupt impact to income
- Stimulus payments have sufficiently boosted national income to weather the pandemic storm
- Slack remains in labor market with 8+ million jobs still lost, will require time to heal
- Savings rate to drop but unlikely to return to pre-virus levels quickly

## MONETARY POLICY AND INTEREST RATES

- Fed's shift to flexible average inflation targeting yields a lower-for-long outlook
- Expect no changes in target rates in 2021, focus to be on taper timeline
- Only five of seventeen participants expect to raise rates before end of 2023
- Given amount of economic slack, expect interest rates to remain generally low
- Expect bear steepener to persist in 2021 given government spending outlook

## OTHER CONCERNS

- Weak Global Economy
- Potential for inflation
- U.S. China Trade Policy
- Growth of U.S. Debt
- Removing Markets from Unprecedented Support

## BUSINESS OUTLOOK AND PRIVATE INVESTMENT

- Business investment in equipment has recovered more quickly than expected
- Outlook for investment in structures less optimistic given changing office-space landscape
- Concerns for smaller businesses and businesses engaged in certain activities remain high
- Travel, leisure, hospitality, restaurants, etc... should see sharp rebound in coming months

## RESIDENTIAL INVESTMENT

- Outlook for residential investment remains positive
- Rising interest rates reduce economic incentive to buy new homes
- Average outstanding mortgage rate today: 3.63%; Average new mortgage rate: 2.97%
- Further extension of eviction moratorium keeps residential losses masked for now
- Lenders expected to be insulated from cascading losses by still-rising prices, low supply

## INFLATION OUTLOOK

- Democratic sweep likely to result in additional stimulus
- Small majorities in both chambers limit legislative scope, reduce likelihood of major tax re-write or energy deal
- Expect another round of fiscal stimulus (~\$1T) and additional spending package in 2022, higher likelihood of increases in some tax rate (high earners, corp)
- Trade tensions likely to remain, Biden expected to build strategic alliances

# ECONOMIC PROJECTIONS

UPDATED PROJECTIONS REFLECT ELECTION OUTCOME, ADDITIONAL STIMULUS, VIRUS PATH, VACCINES

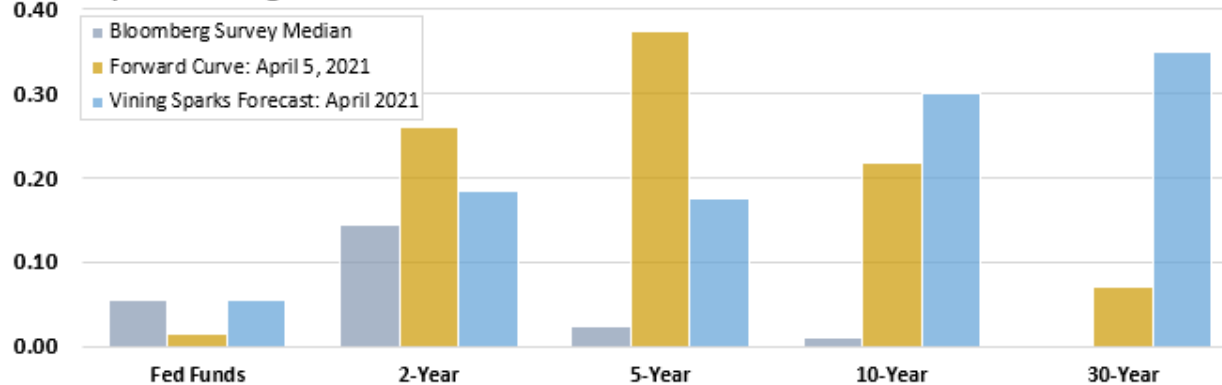
## Vining Sparks Projections

April 2021

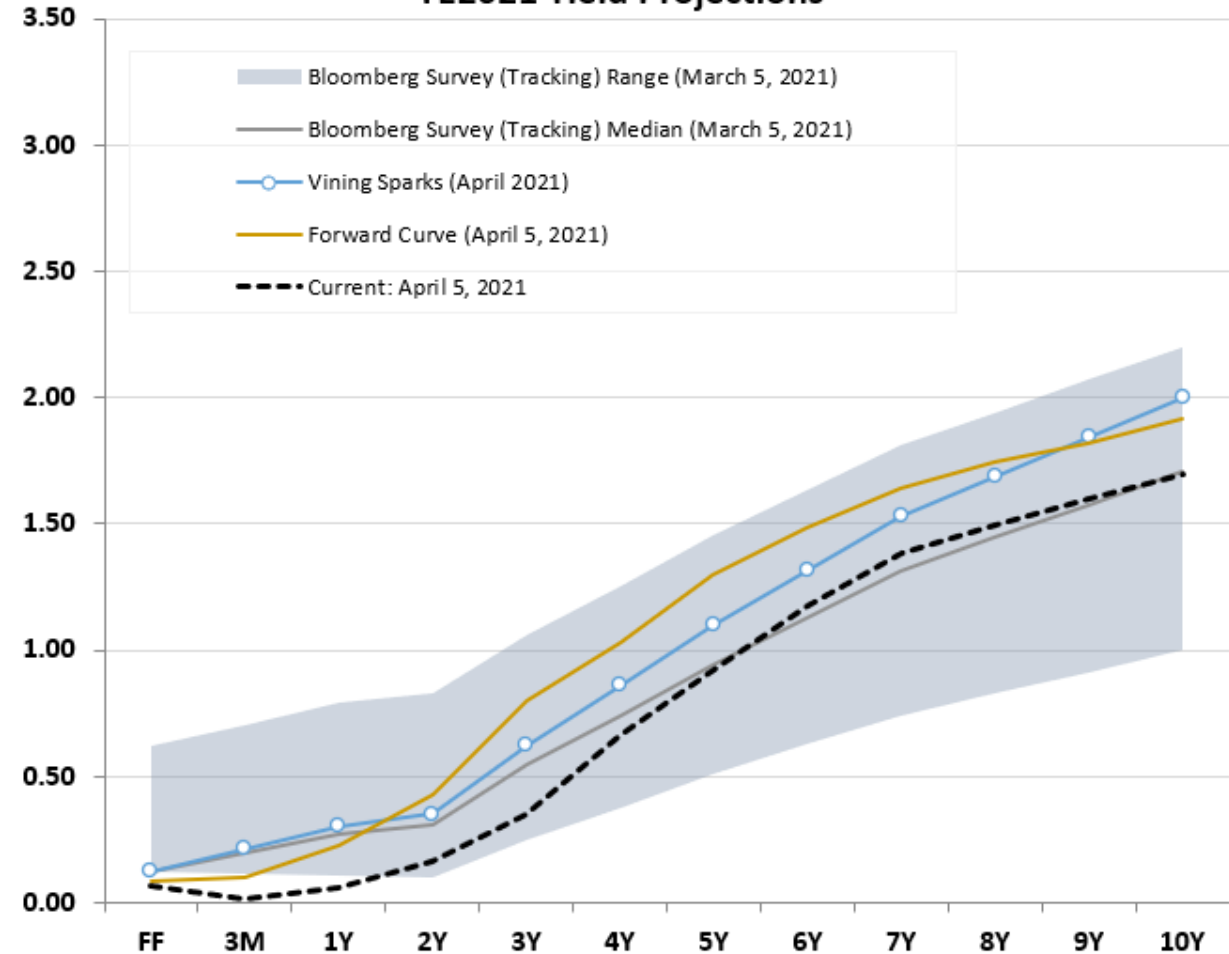
	Q121	Q221	Q321	Q421	Q122	Q222	2021	2022
GDP (QoQ, SAAR)	6.1	9.3	9.3	5.1	4.6	4.3	7.4	3.8
Headline CPI (YoY)	2.1	3.0	2.6	2.6	2.2	2.1	2.5	2.1
Core PCE (YoY)	1.7	2.1	2.2	2.2	2.1	2.0	2.2	2.0
Unemployment Rate	6.0	5.4	5.0	4.8	4.6	4.4	5.5	4.5
Nonfarm Payrolls (Monthly)	250	750	600	400	350	220	513	233

	Q121	Q221	Q321	Q421	Q122	Q222	Q322	Q422
Fed Funds Target	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.38
2-Year Treasury Yield	0.15	0.20	0.28	0.35	0.40	0.45	0.50	0.55
10-Year Treasury Yield	1.75	1.95	2.00	2.00	1.95	1.95	1.95	1.95
30-Year Treasury Yield	2.43	2.68	2.72	2.70	2.62	2.60	2.59	2.57
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.50
30-Year Mortgage Rate	3.55	3.80	3.90	3.95	3.90	3.90	3.90	3.90

## Expected Change from Current to Year-End 2021



## YE2021 Yield Projections

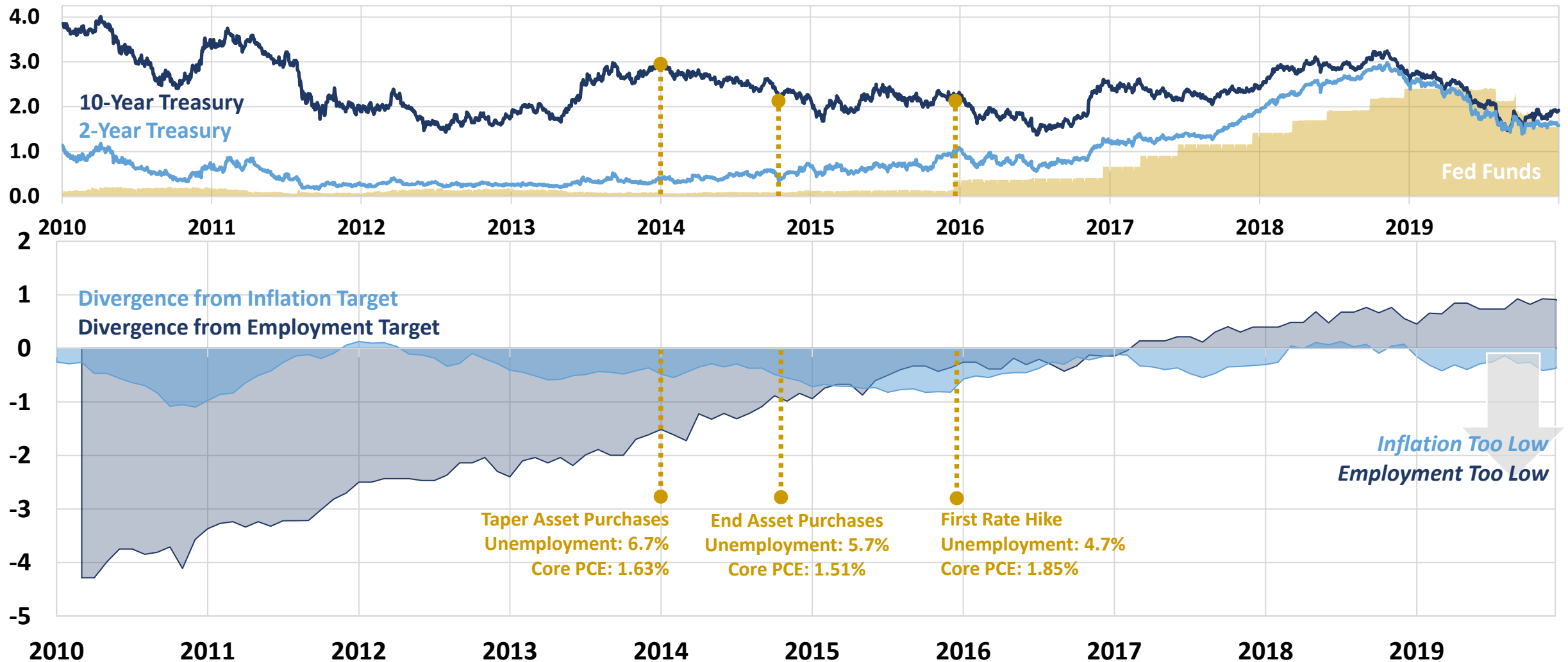


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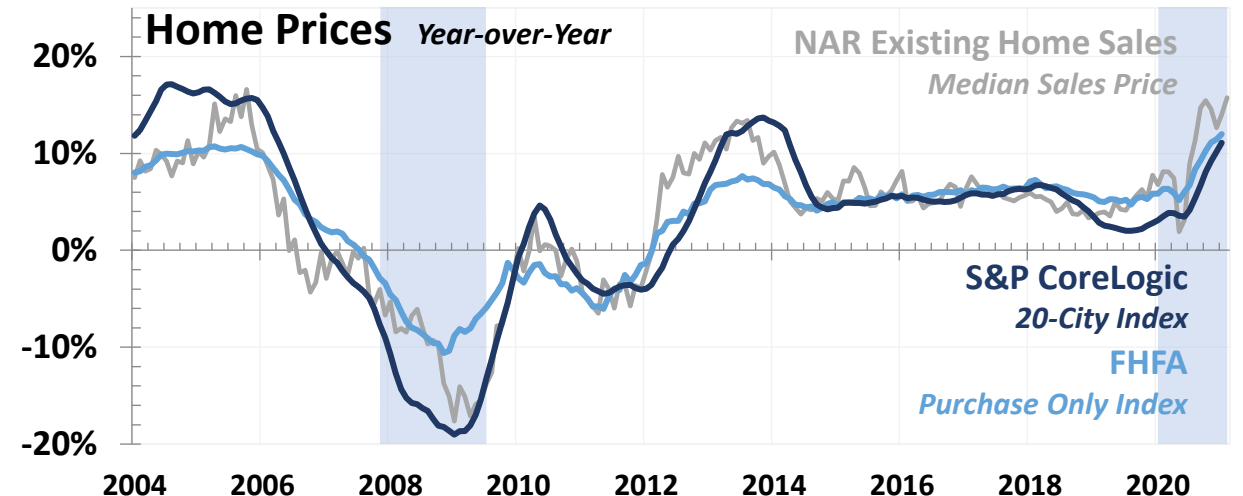
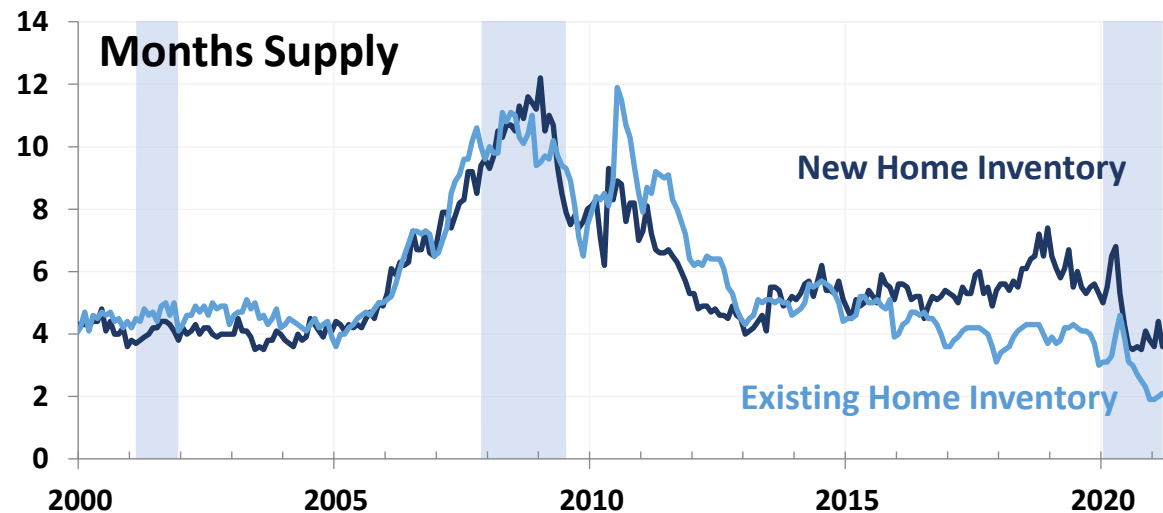
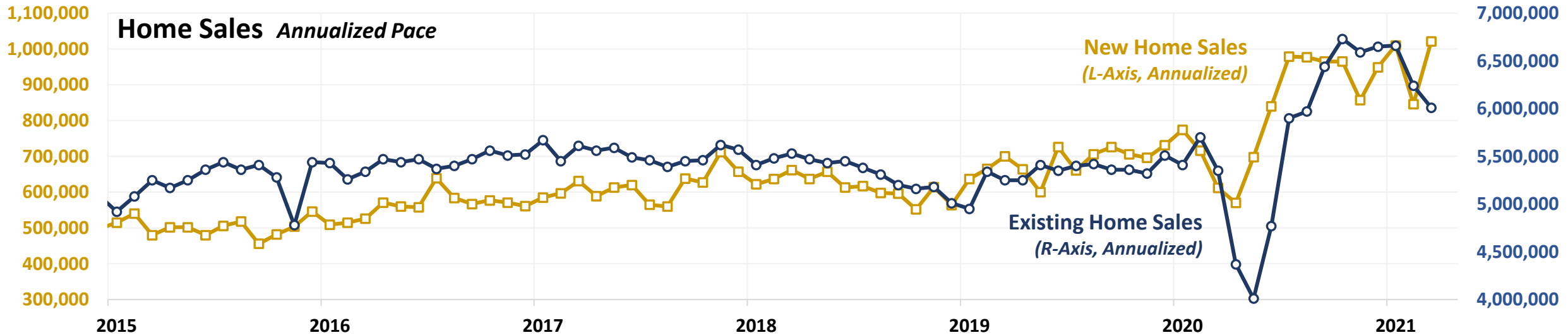
# FED MILESTONES

RELY LESS ON TIGHTENING LABOR MARKET CONDITIONS THIS TIME, MORE ON EVIDENCE OF INFLATION



# HOUSING'S RESILIENCE

HOUSING DYNAMICS TURBO-CHARGED BY RECORD-LOW MORTGAGE RATES AND INVENTORY LEVELS



# RATES AND HOME SALES

HOUSING LIKELY TO REMAIN STRONG IN 2021 ALTHOUGH RATES LIKELY TO BE LESS OF A TAILWIND

