

Economics

US Macro Outlook

Vaccines and stimulus aid an earlier economic recovery

State of Rhode Island

April 30, 2021

James Bohnaker

Director – US Macro & Consumer Economics

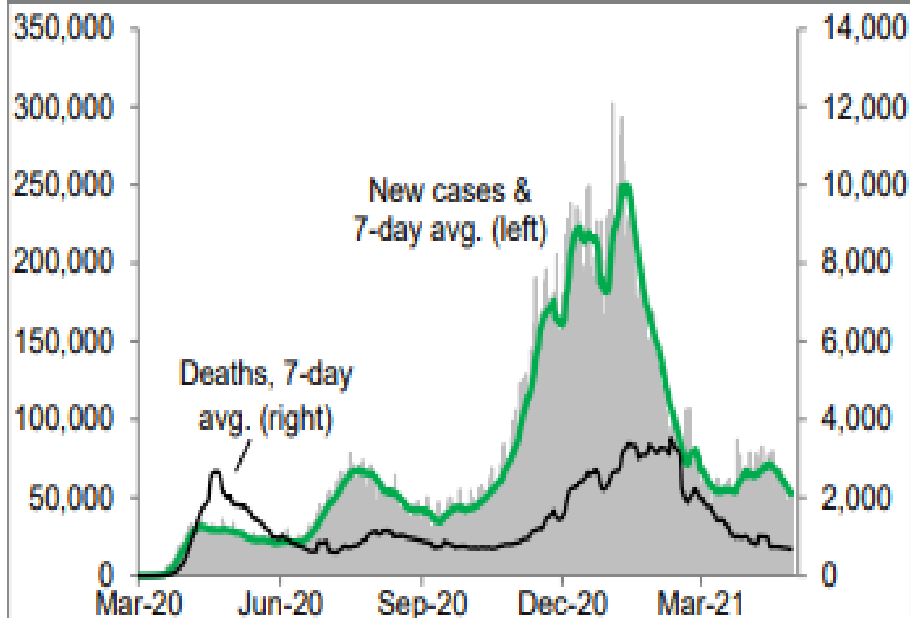
james.bohnaker@ihsmarkit.com



COVID-19 situation has improved this spring...

New COVID-19 cases & deaths USA

Daily data through 28 April

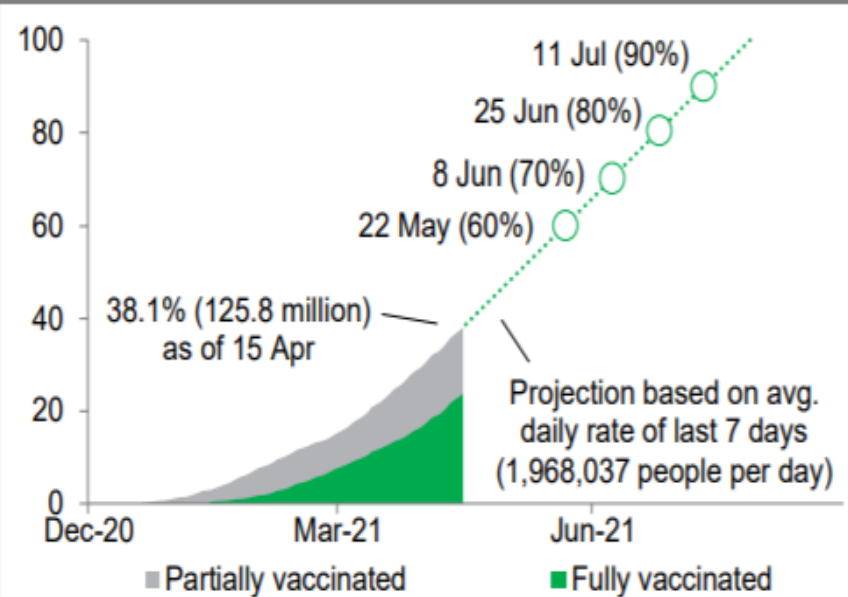


Source: Johns Hopkins University

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People partially or fully vaccinated

Percent of US population



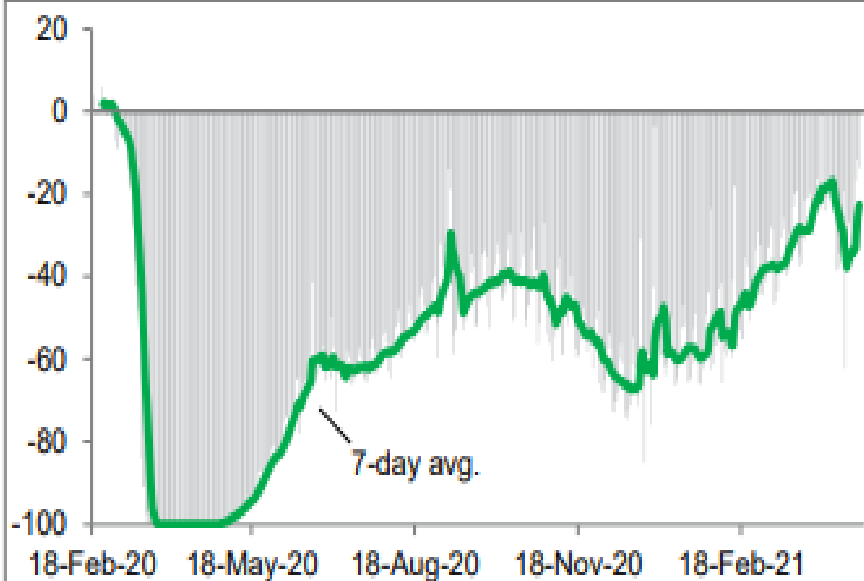
Source: IHS Markit, Centers for Disease Control and Prevention

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...Facilitating improvement in travel and entertainment...

Seated diners at US restaurants

Percent change from comparable day, 2019, daily data



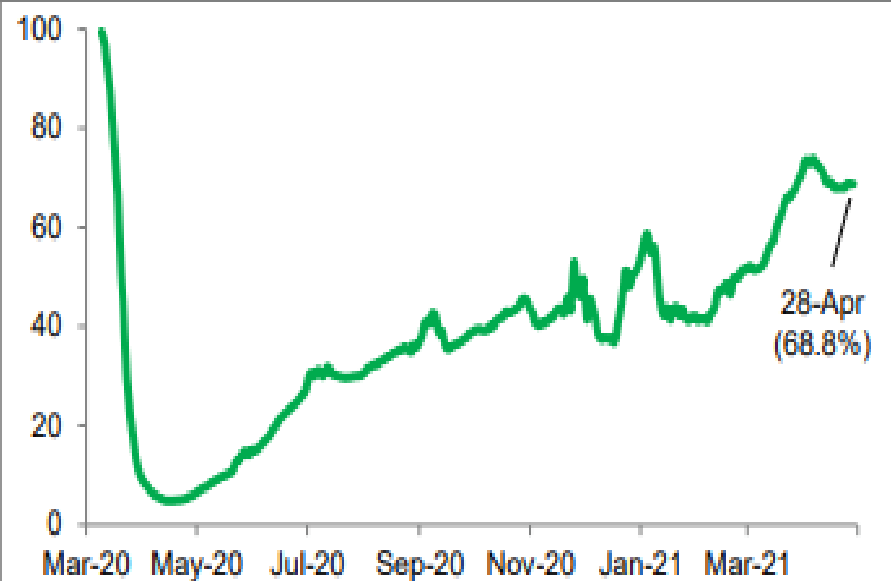
Notes: Seated diners at restaurants on the OpenTable network.

Source: OpenTable

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TSA checkpoint travel numbers

Percent of January 2020 average, 7-day average, SA

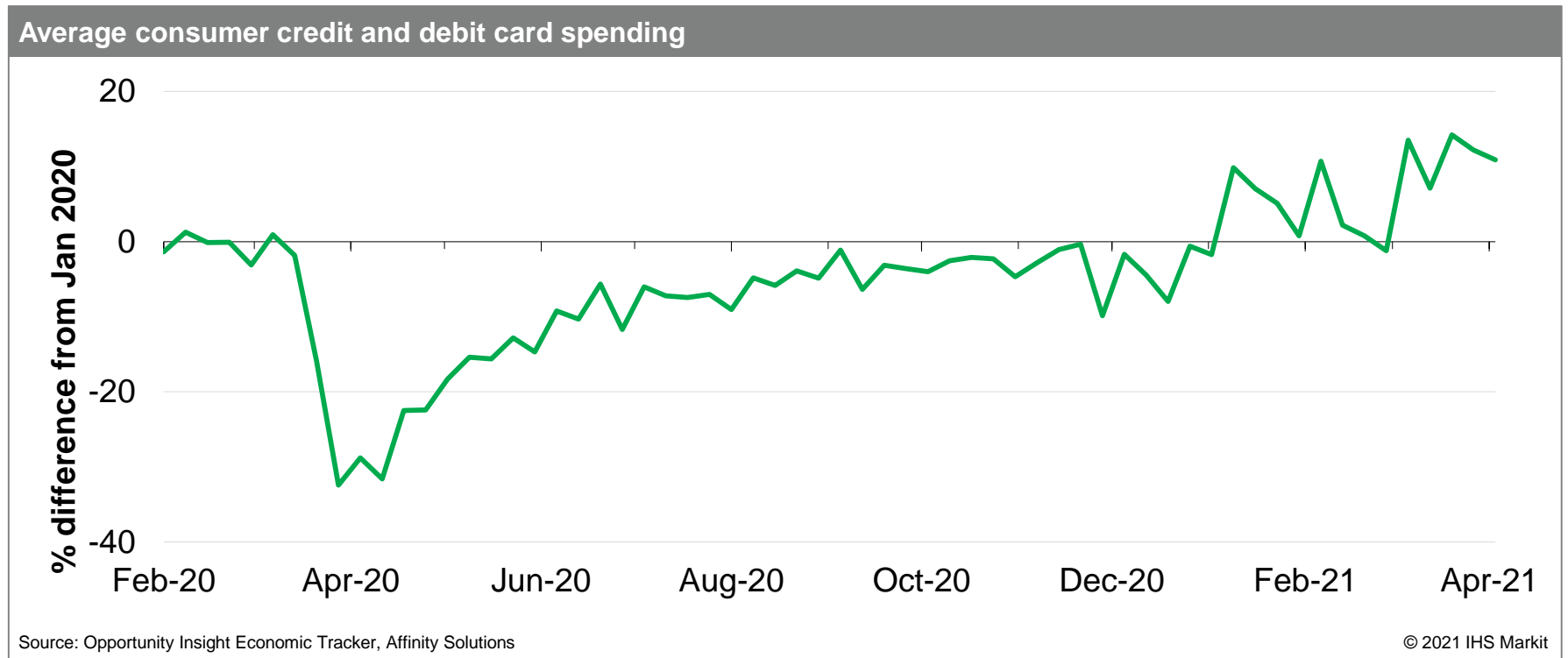


Notes: Total traveler throughput.

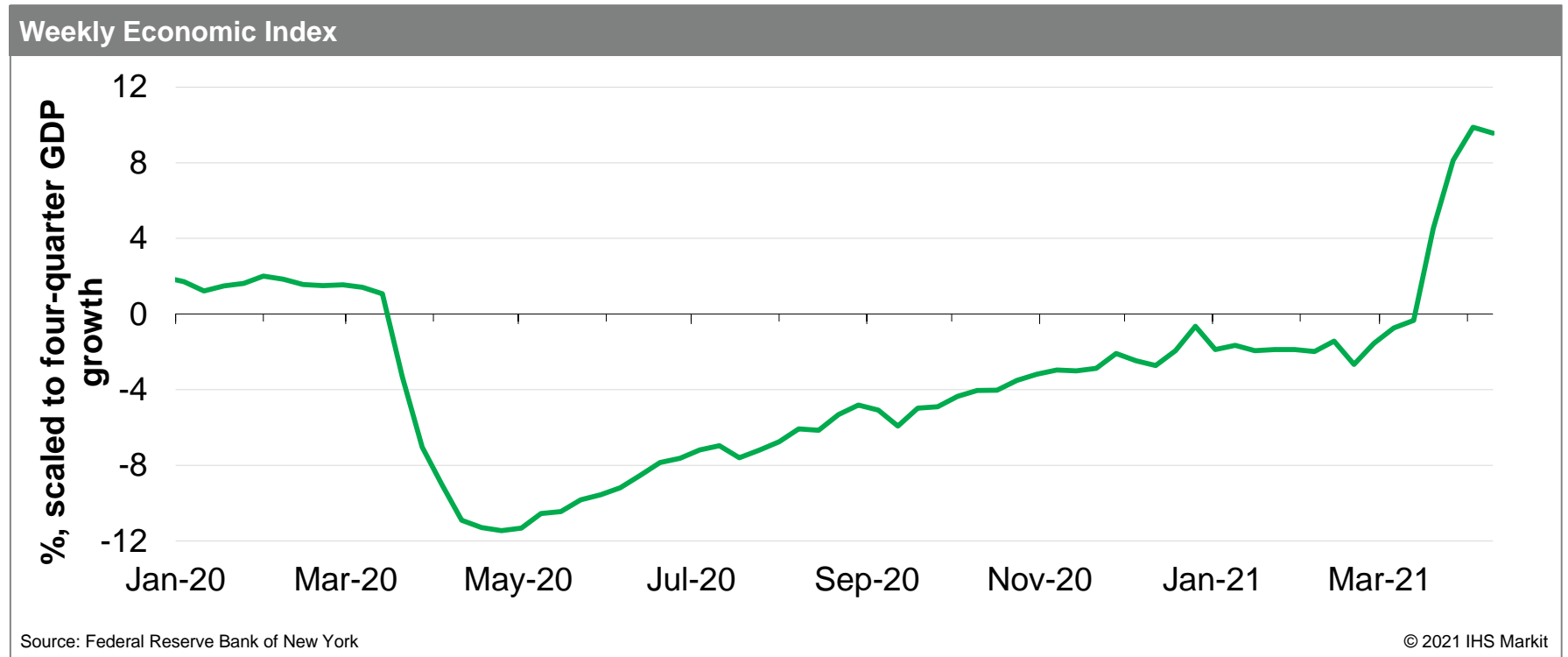
Source: IHS Markit, Transportation Security Administration

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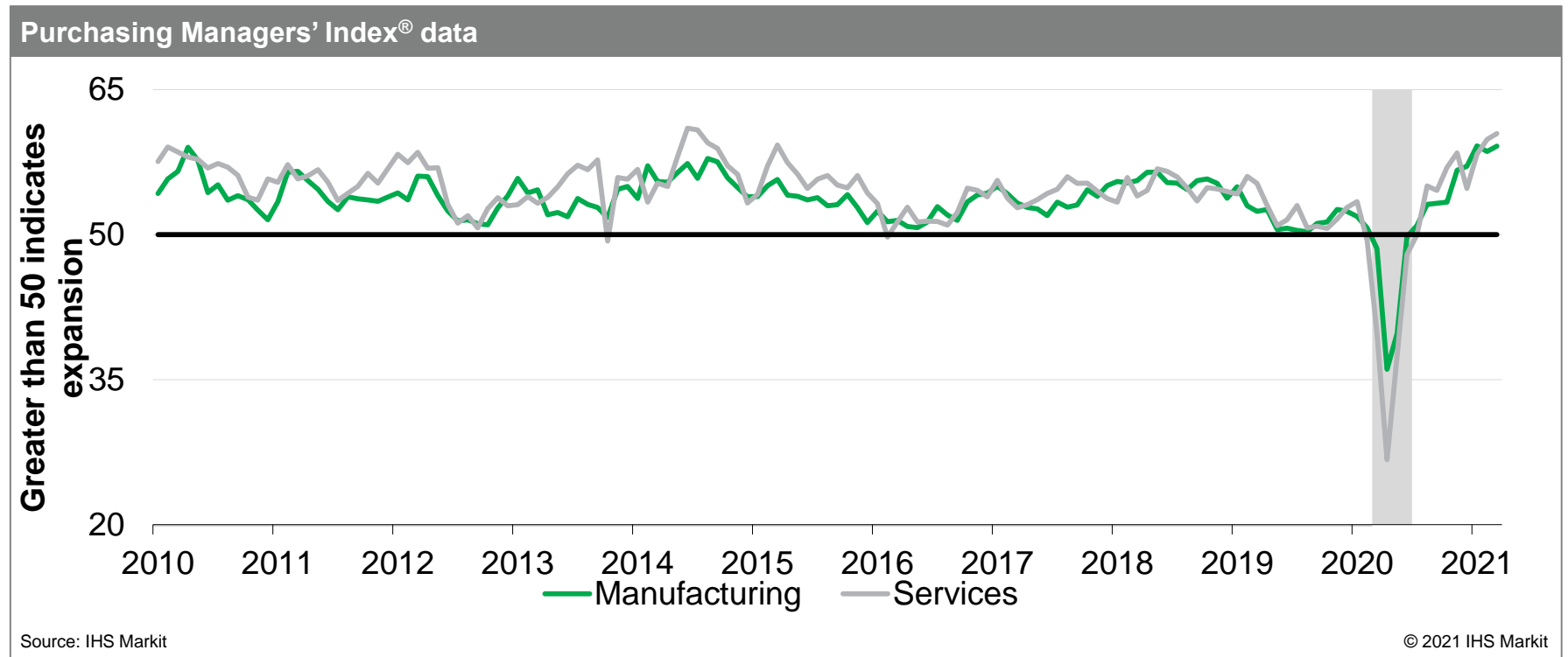
...And consumer spending more broadly



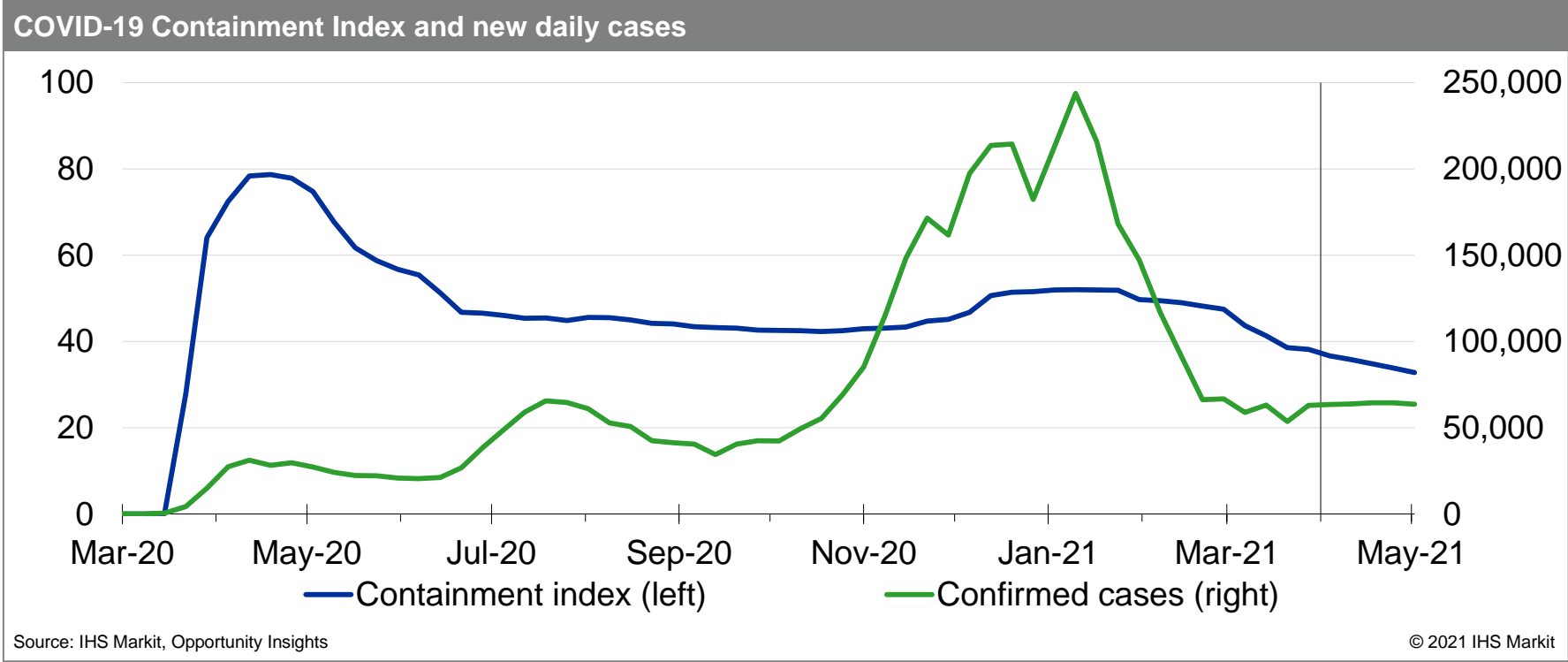
New York Fed's Weekly Economic Index



IHS Markit PMIs® indicate recovering activity



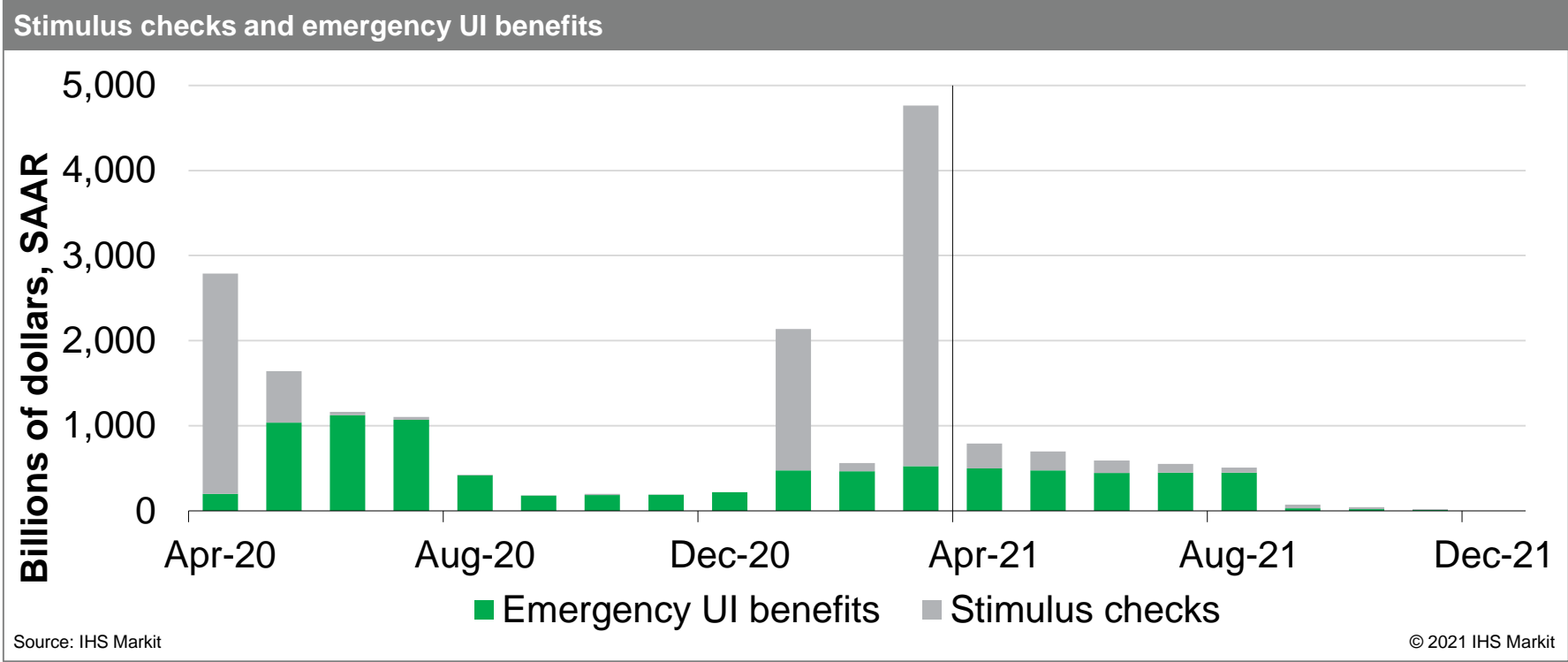
Assumed course of cases and containment in April forecast



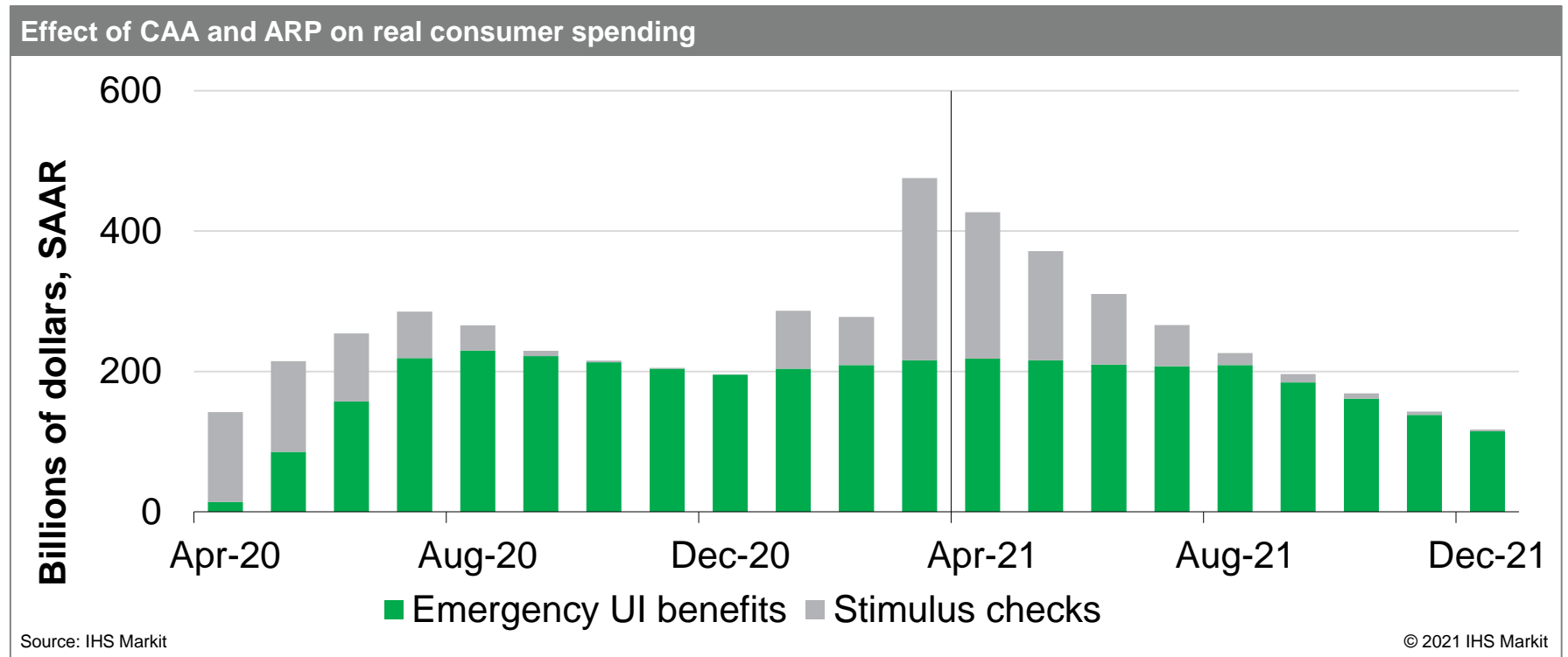
Policy assumptions in the April forecast

- This forecast reflects all pandemic relief measures of 2020 and the recently enacted \$1.9 trillion American Recovery Plan (ARP). ARP includes stimulus checks of \$1,400, extension of emergency unemployment programs through early September including an enhanced unemployment benefit of \$300/week, \$350 billion of unrestricted aid to state and local governments, \$287 billion of support for education, and a range of additional tax credits and outlays for pandemic-affected industries and COVID-19 mitigation efforts.
- The forecast does not (yet) include the President's American Jobs Plan which proposes to spend \$2.1 trillion on social investments paid for over 15 years by higher corporate taxes.
- The forecast assumes the debt ceiling is re-suspended in July.
- Strong revenues, reinforced by ARP, limit the usual cyclical state and local fiscal contraction. State and local employment rebounds in the fall as schools re-open.
- The Fed maintains its policy rate near 0% until mid-2024 and expands its holding of term Treasuries another \$1.3 trillion by late 2022. It also tolerates inflation above 2% after 2024.

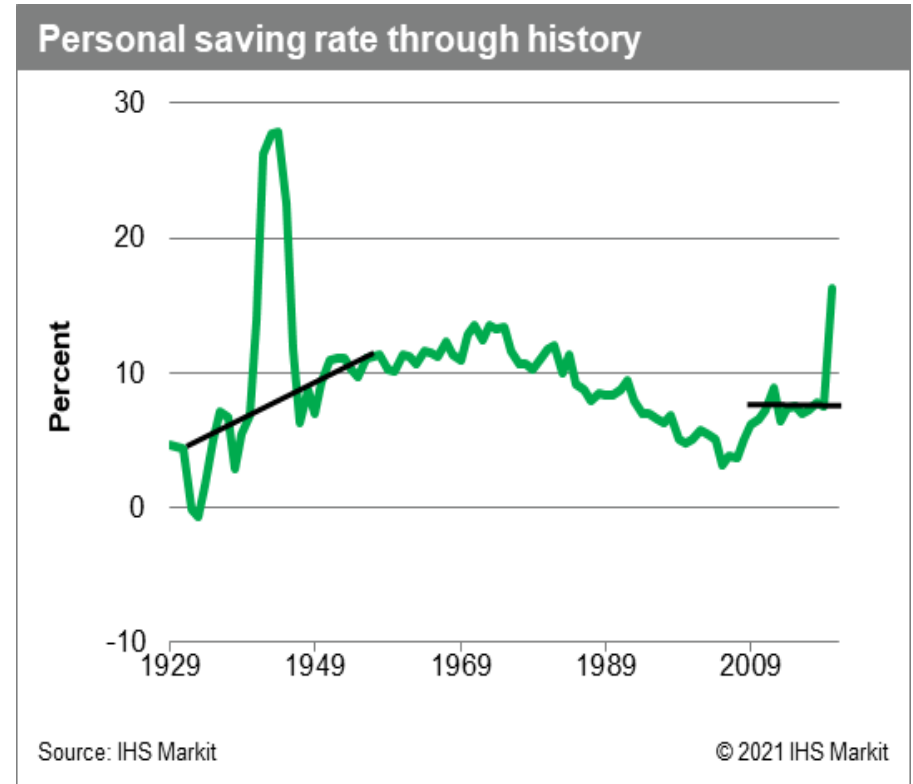
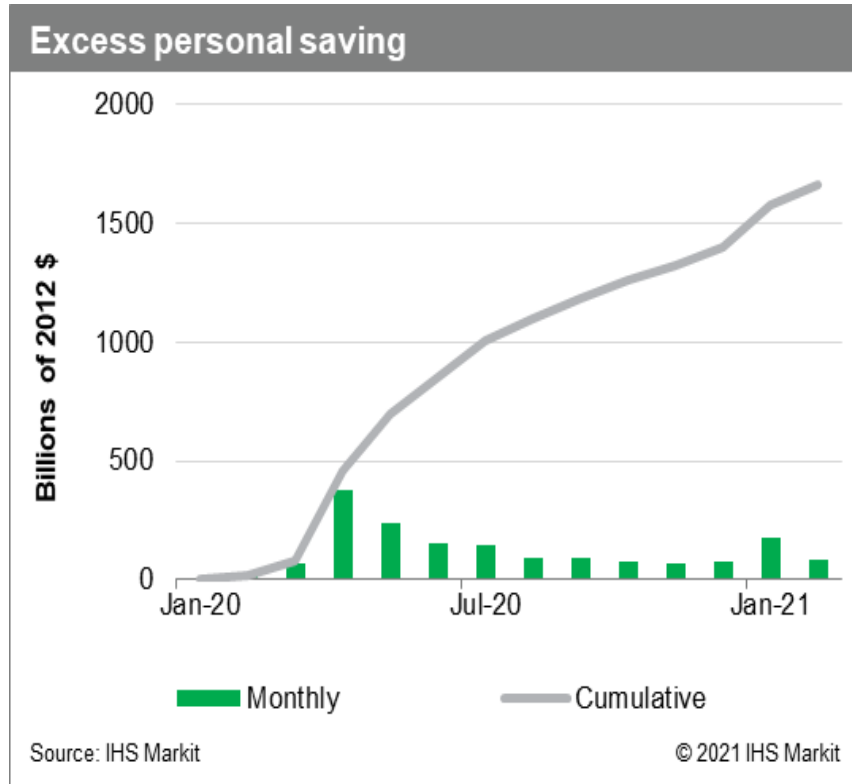
Stimulus checks arrived mostly in March, while unemployment benefits linger



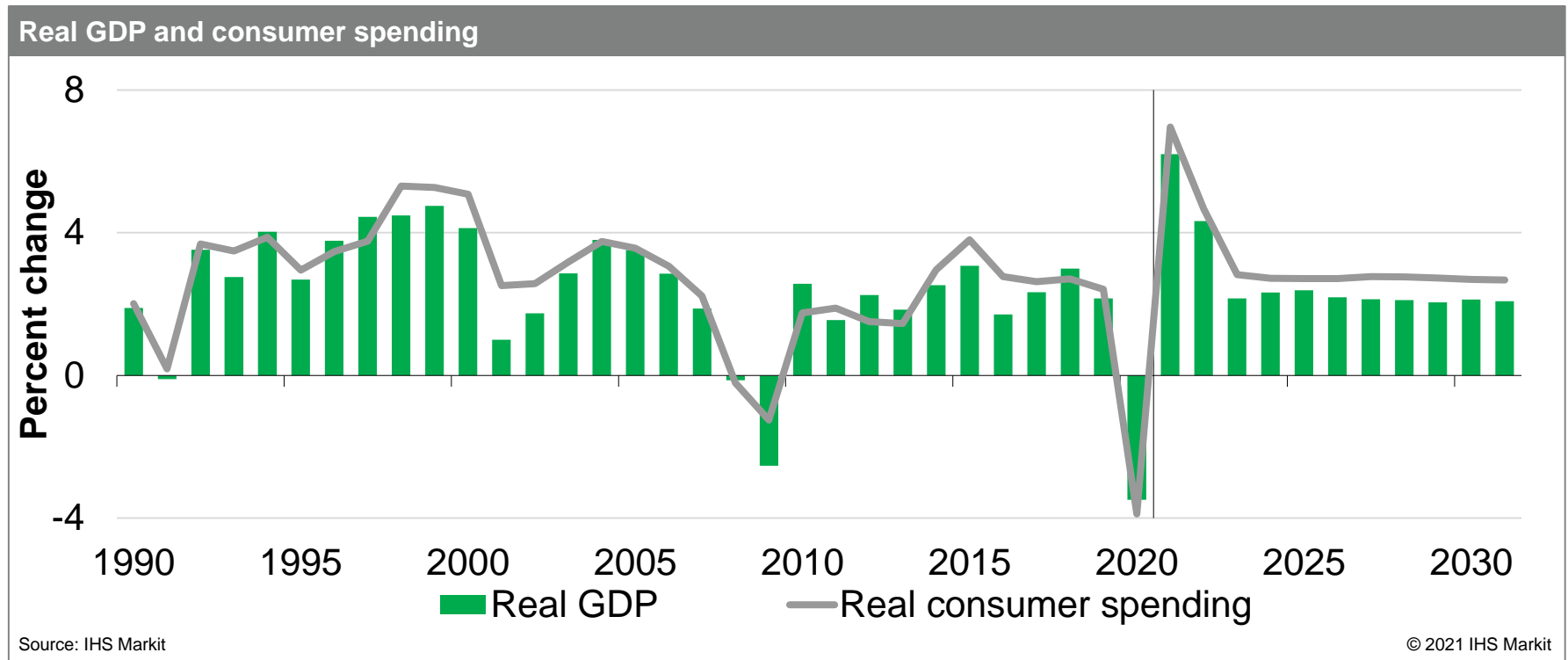
Impact of stimulus on real consumer spending



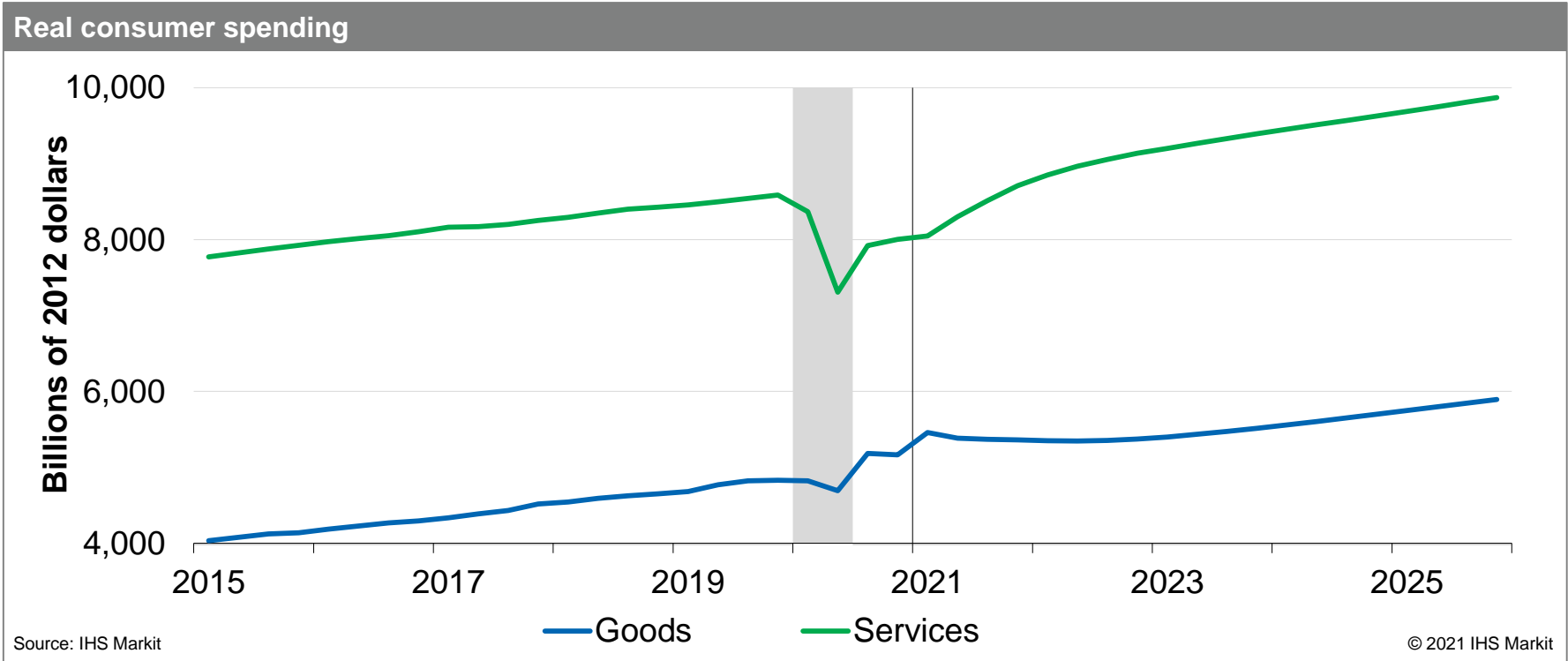
Excess savings unlikely to be unleashed quickly



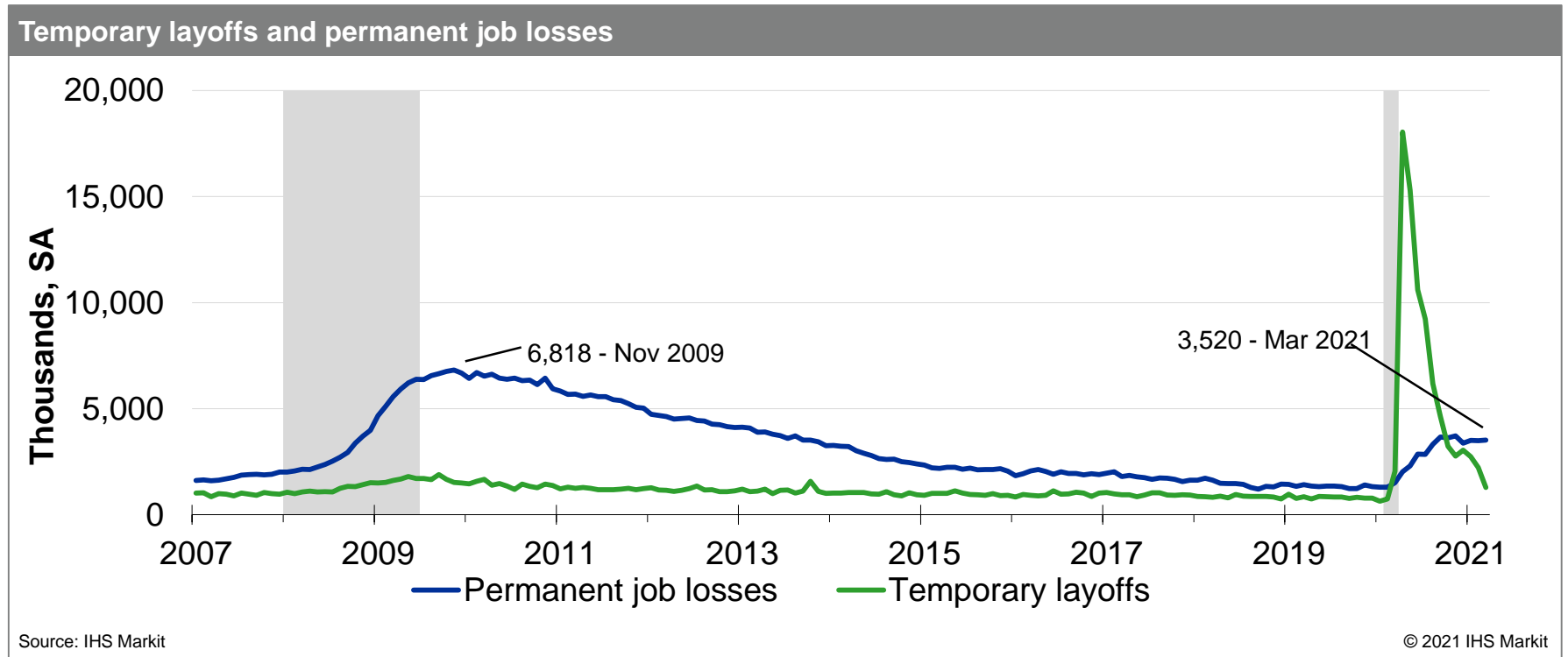
Real GDP and consumer spending growth



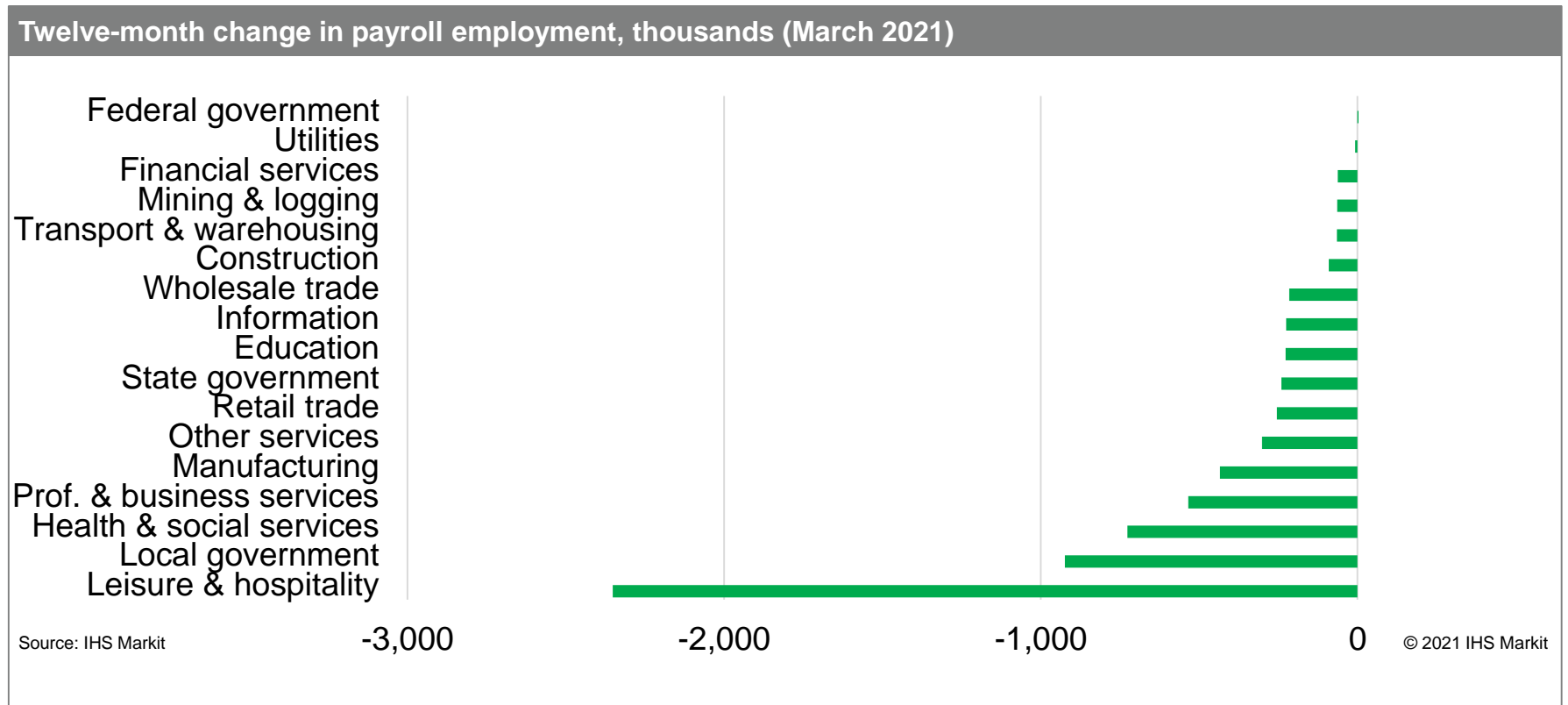
Recovery in goods spending is already complete, while services will return over the course of the year



Permanent job losses remain elevated

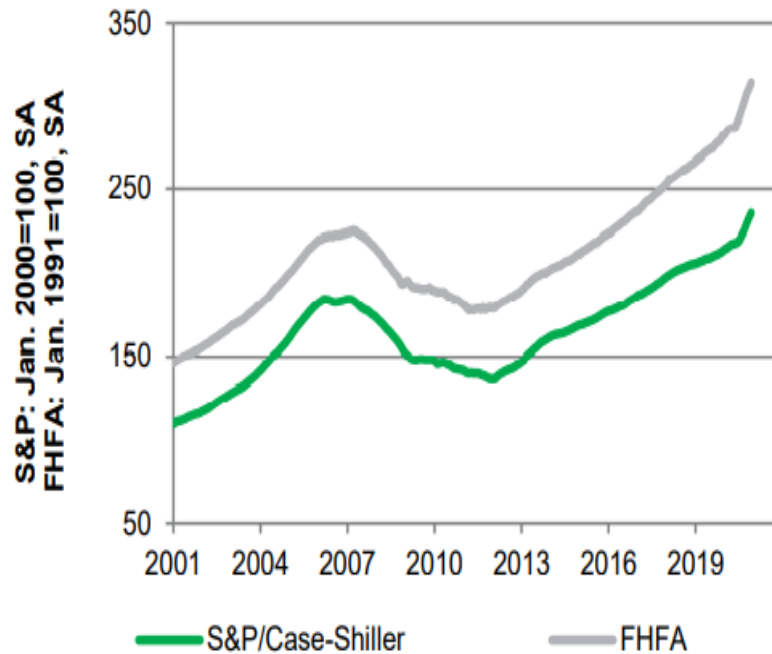


Leisure & hospitality remains by far the hardest-hit sector



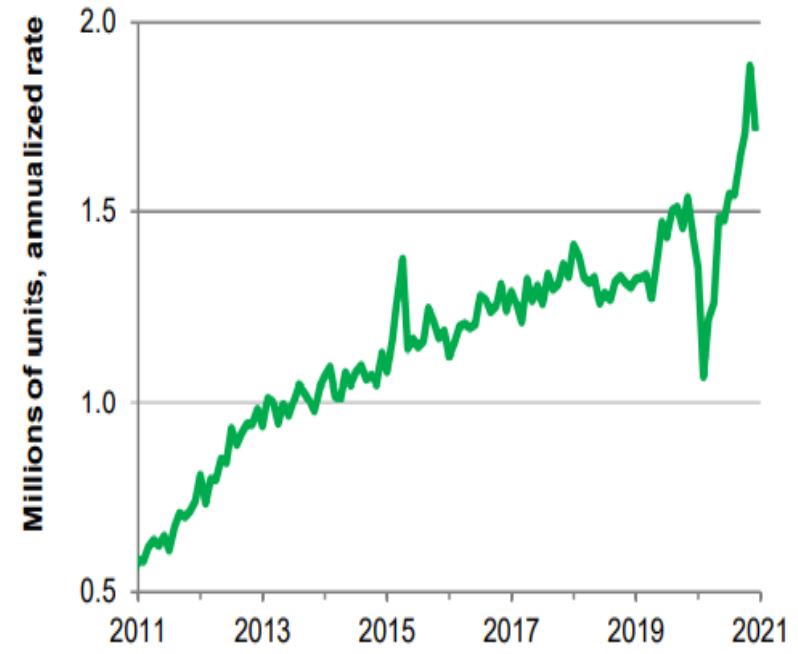
Housing market is sizzling

US home prices according to the leading indices



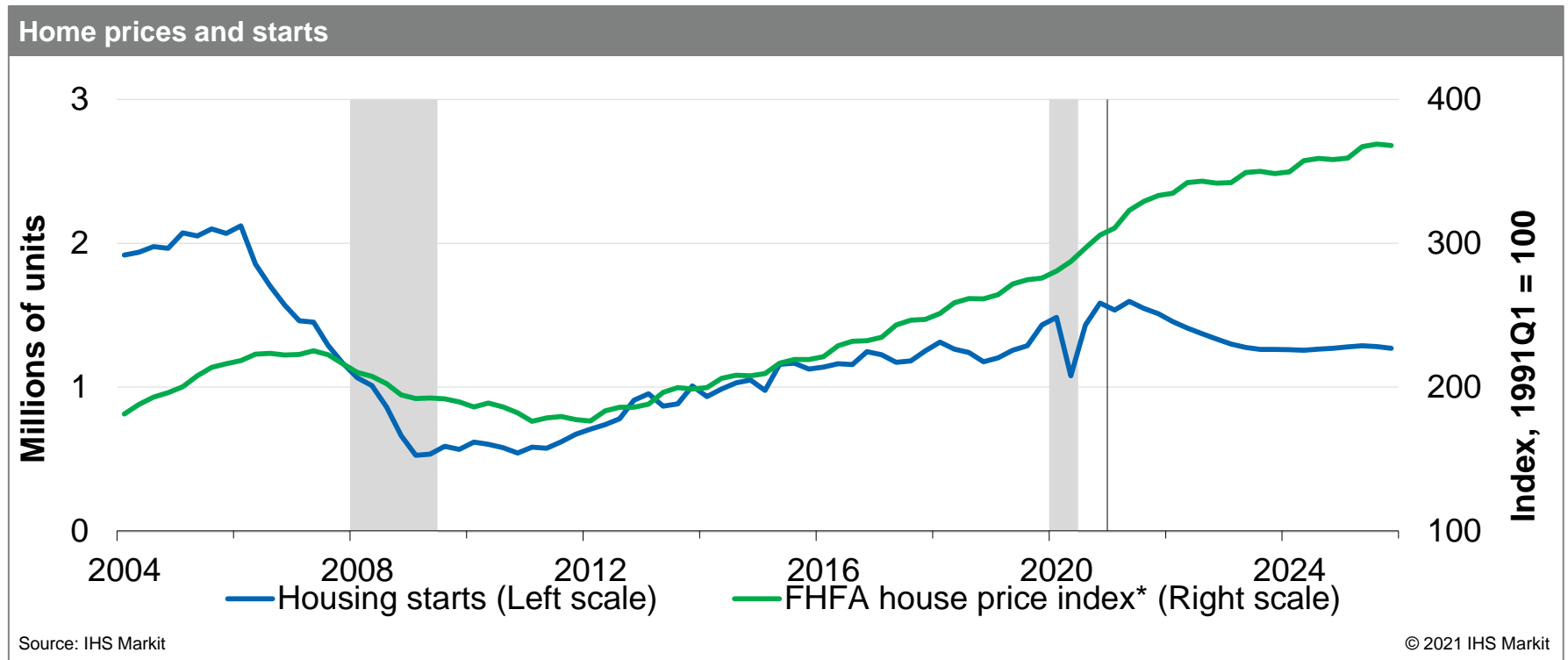
Source: S&P/Case-Shiller, Federal Housing Finance Agency © 2021 IHS Markit

Housing permits

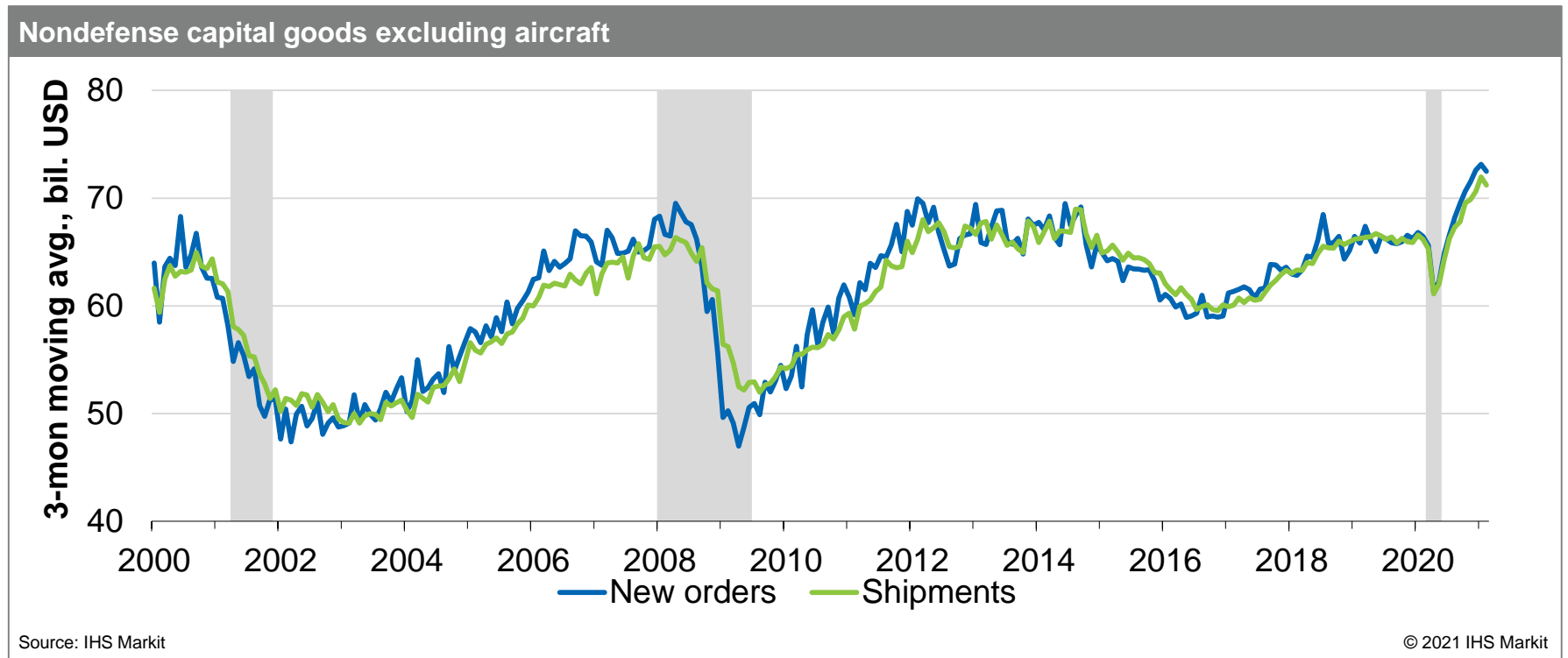


Source: Census Bureau © 2021 IHS Markit

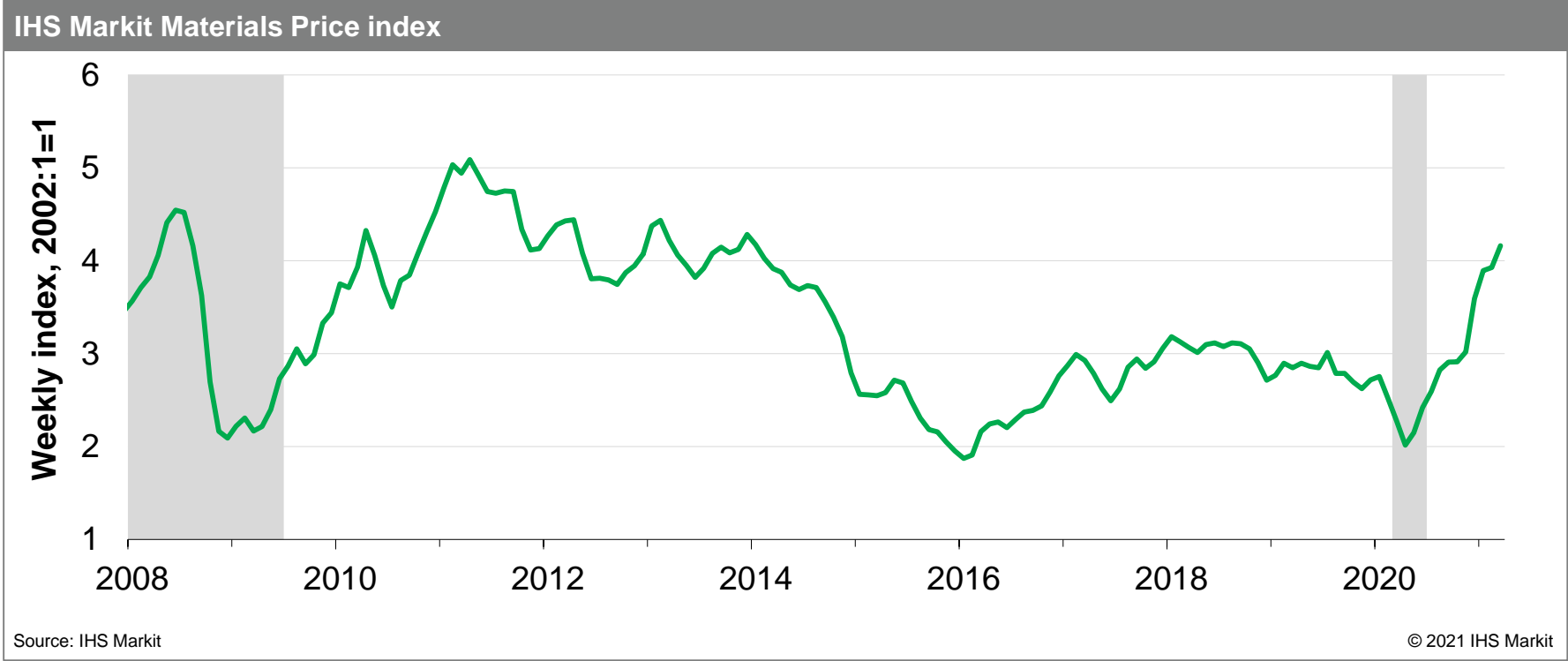
Demographics dominate the housing forecast



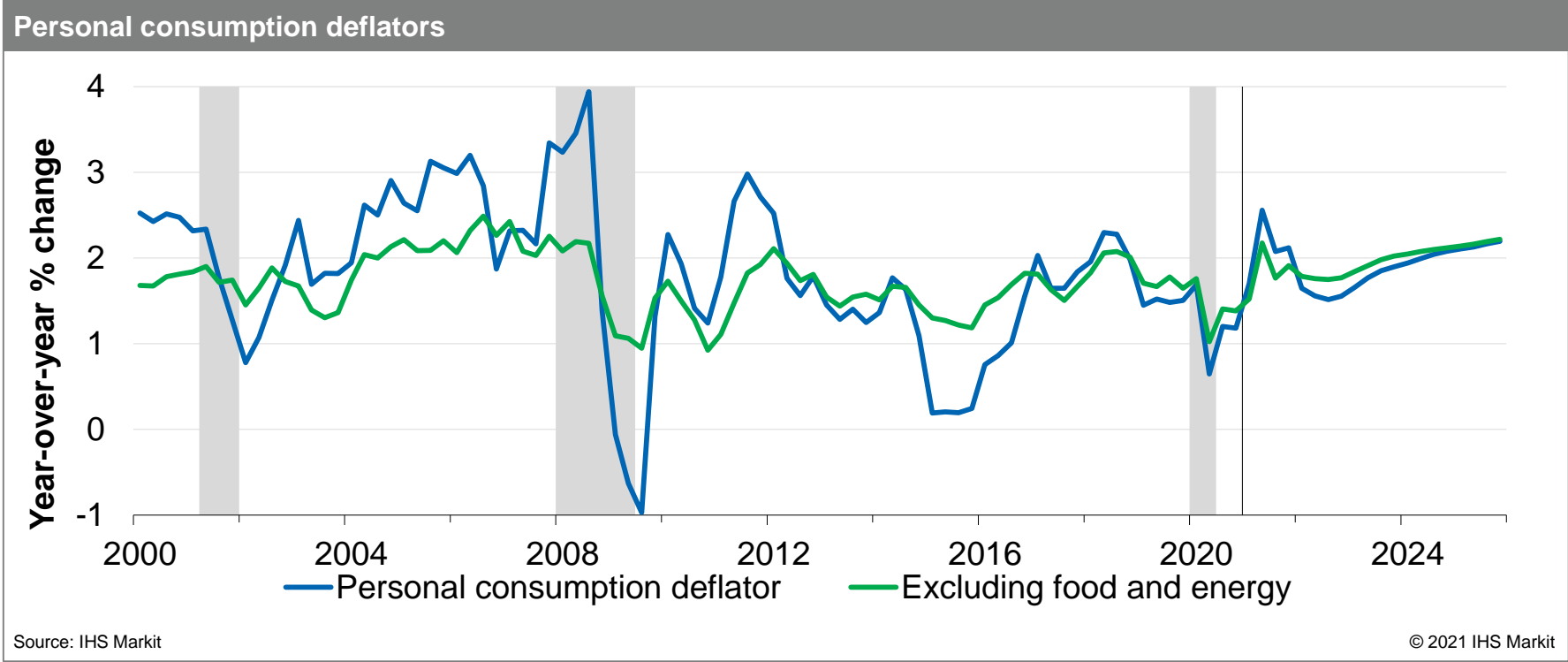
Durable goods orders exceed the pre-pandemic trend



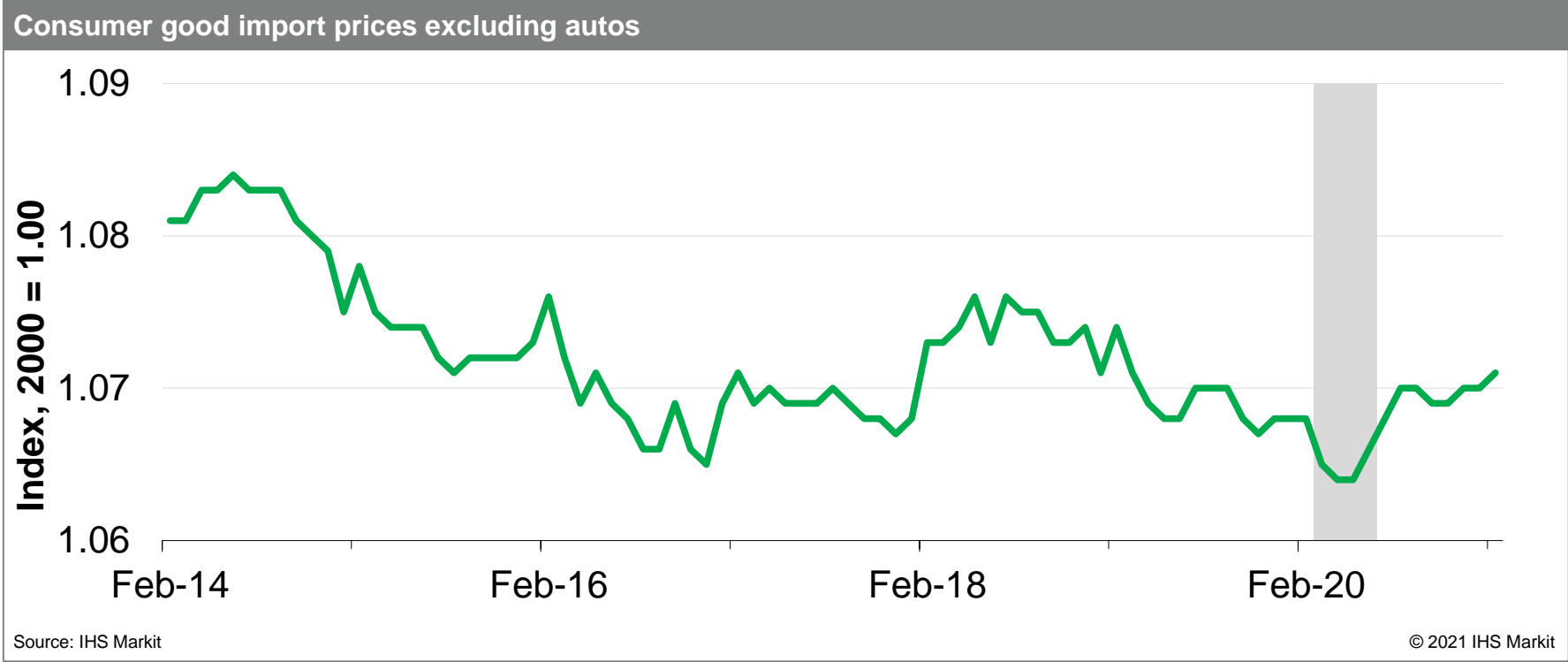
Industrial materials prices have surged amid production and logistics bottlenecks



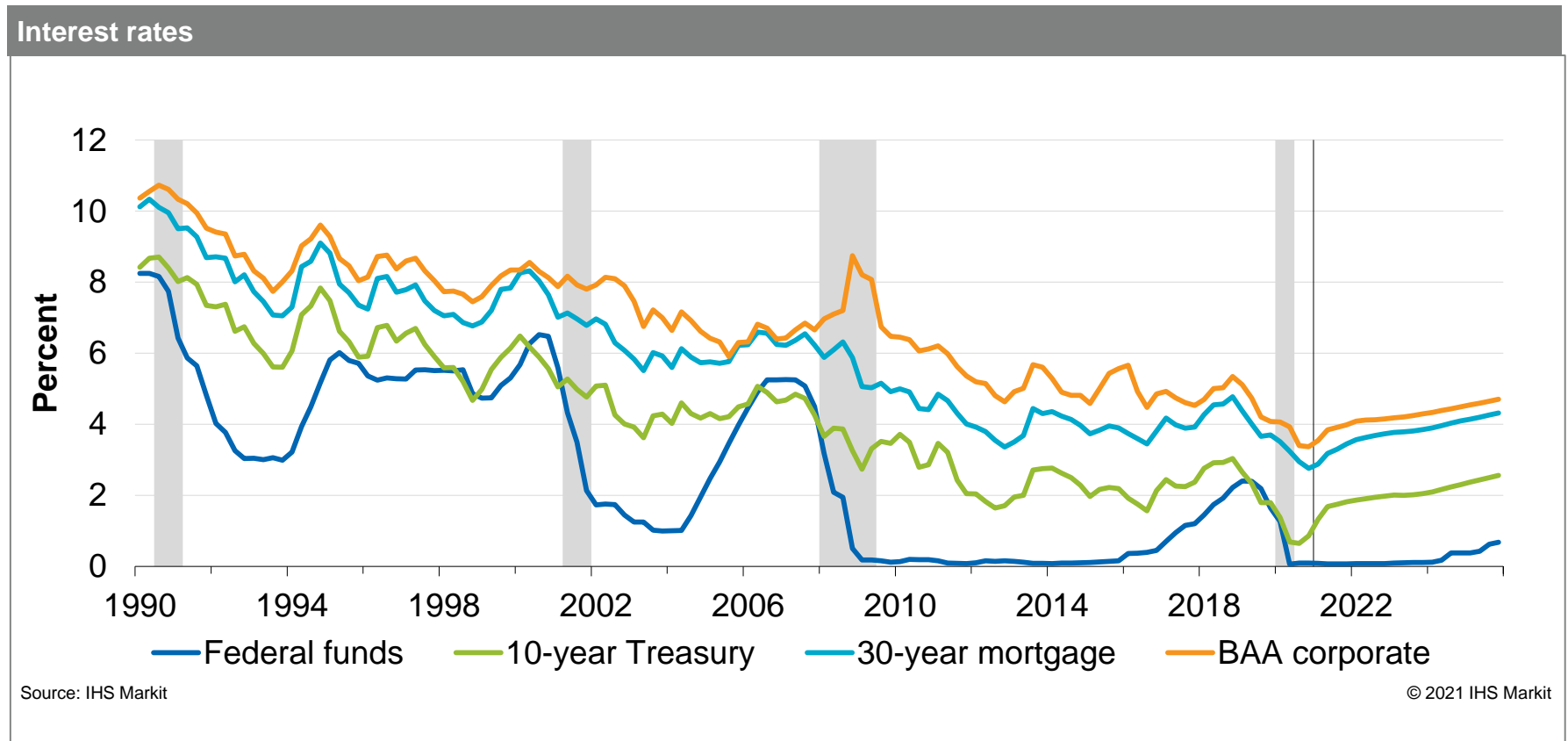
After a bulge this year, core PCE inflation will get back to 2% in 2023



Consumer good import prices (pre-tariffs) rose on a weaker dollar; the reversal of this will temper consumer inflation



Fed's criteria for raising interest rates not met until 2024



American Jobs Program

- President Biden’s American Jobs Program (AJP) is not reflected in this forecast. However, we offer some preliminary observations:
- The media refers to AJP as an “infrastructure bill”, but less than a third of the spending (\$621 billion) is for transportation projects conventionally considered infrastructure investments. Even within that \$621 billion, \$174 billion is in “unconventional” support of electric vehicles.
- Otherwise, AJP allocates \$590 billion to domestic manufacturing, R&D, and job training; \$400 billion to expanding home care services and supporting care workers; \$328 billion to improving housing, schools, childcare facilities and VA hospitals; and \$311 billion to improving broadband access, upgrading the electrical grid, and purifying drinking water.
- Our initial estimates suggest that the ramp up in spending could raise GDP growth by between 0.2 and 0.4 percentage point for several years—enough to lift the level of GDP about 1% above our baseline forecast by 2024 and push the unemployment rate below 3%—before the effects reverse.

Preliminary assessment of AJP

Budget effects of the American Jobs Plan

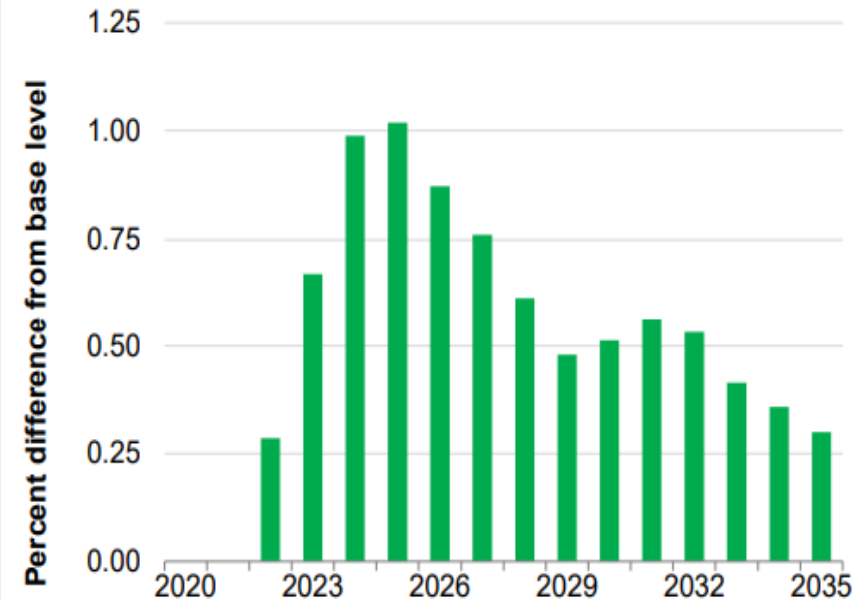
Billions of dollars

OUTLAYS (8 YRS):	2,250
Transportation infrastructure	621
Domestic manufacturing, R&D, and job training	590
Home care services & support for care workers	400
Housing, schools, childcare facilities, VA hospitals	328
Broadband, electrical grid, drinking water	311
REVENUES (15 YRS):	2,330
Raise corporate tax rate to 28%	1,300
Strengthen GILTI provision of 2018 Tax Act	750
Eliminate deduction for FDII	400
15% minimum tax on book income	200
Prevent corporate inversions	50
Eliminate tax preference for fossil fuels	30
Clean energy tax credits	(400)
DEFICIT (15 YRS)	(80)

Source: CRFB

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Estimated impact of AJP on Real GDP



Source: IHS Markit

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CustomerCare@ihsmarkit.com

Americas: +1 800 IHS CARE (+1 800 447 2273)

Europe, Middle East, and Africa: +44 (0) 1344 328 300

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