



Economic Outlook

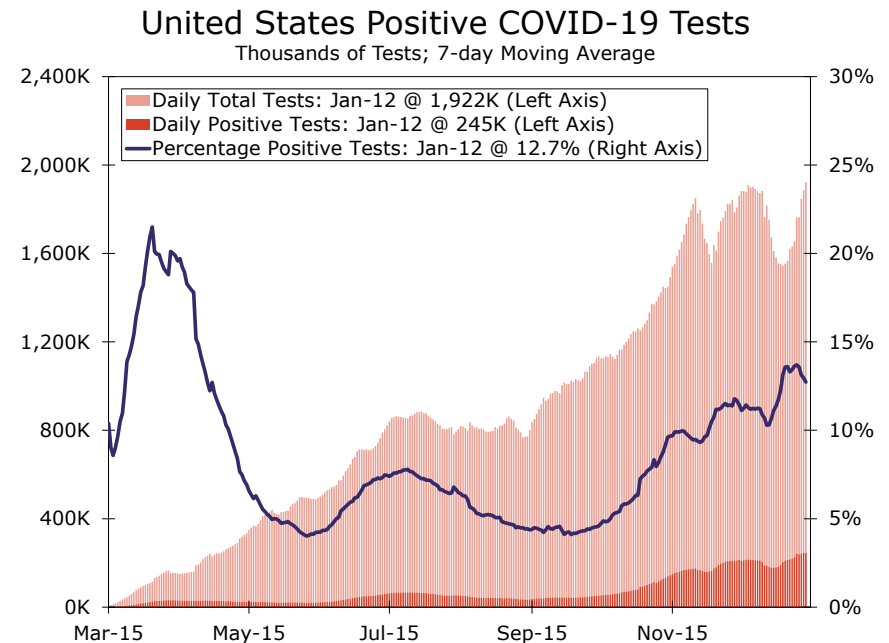
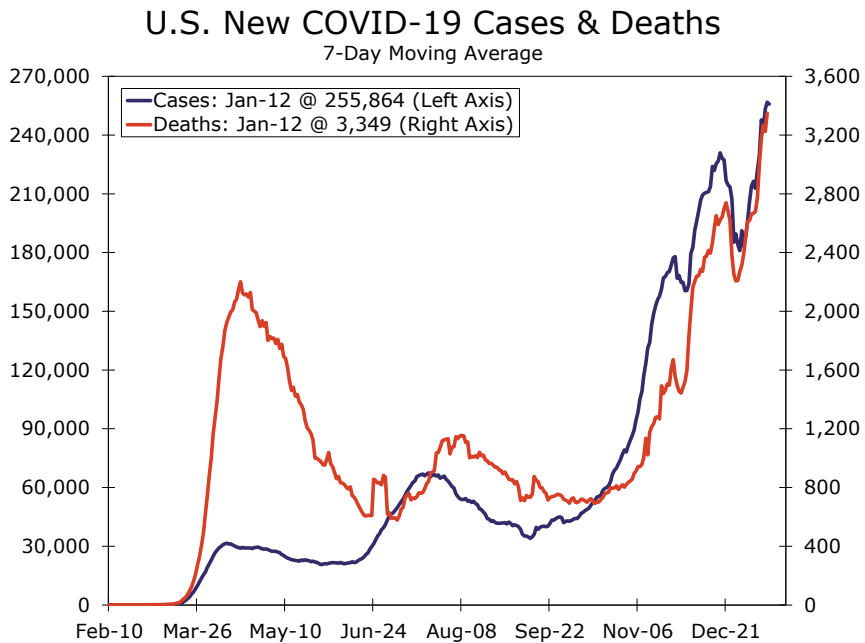
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Tim Quinlan

Senior Economist | Wells Fargo Securities, LLC

tim.quinlan@wellsfargo.com | 704-410-3283

The U.S. outlook depends heavily on the path of COVID-19.

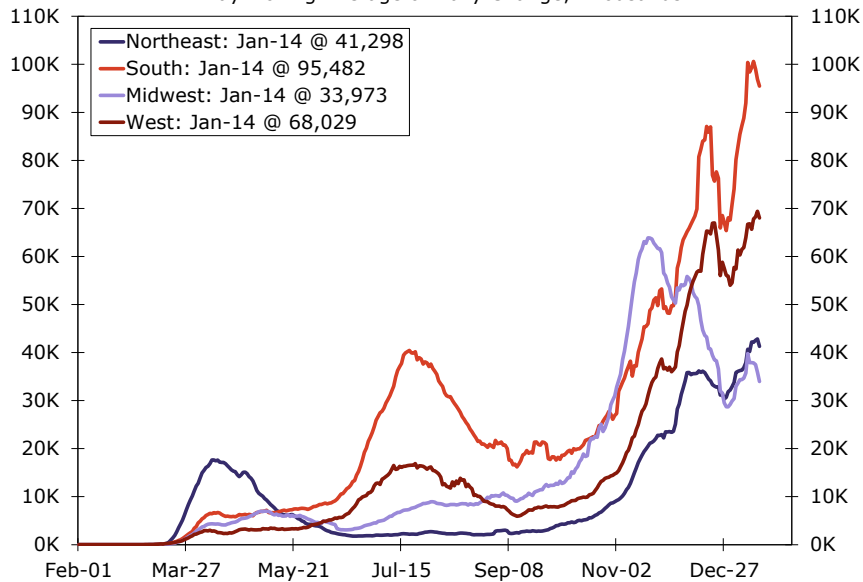


COVID-19: U.S. Cases Regionally

The reacceleration in cases is hitting the South and the West the hardest, whereas the Northeast and Midwest have the virus under comparatively better control.

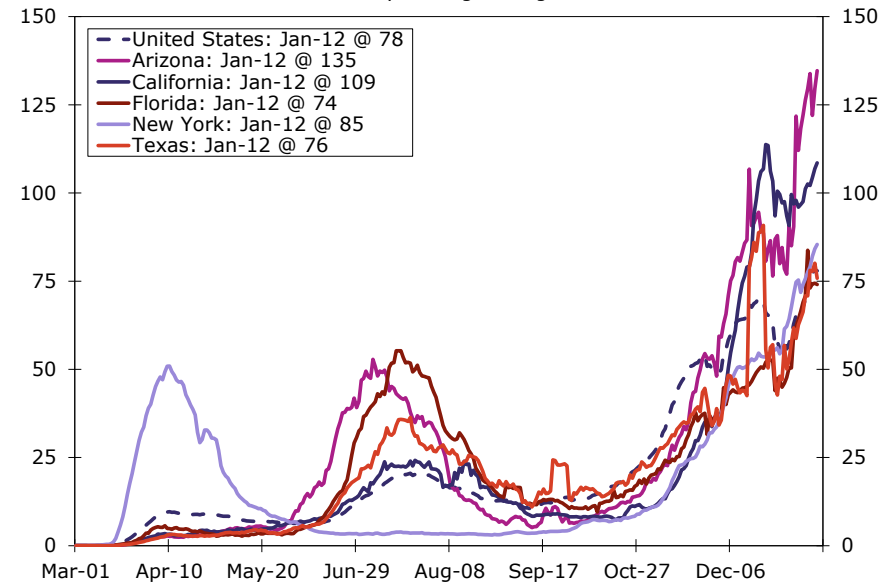
New COVID-19 Cases by Region

7-Day Moving Average of Daily Change; Thousands

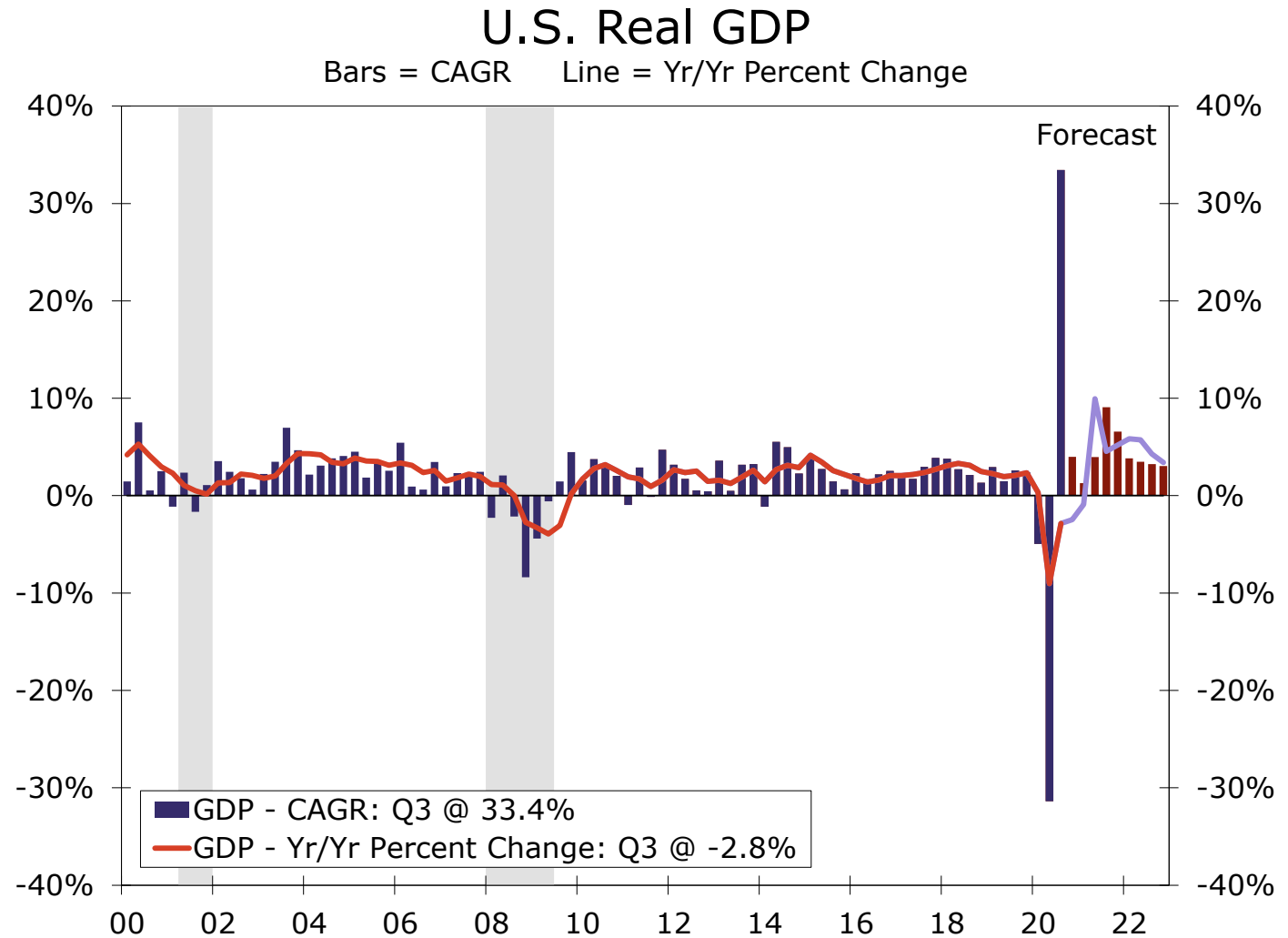


New COVID-19 Cases per 100K Residents

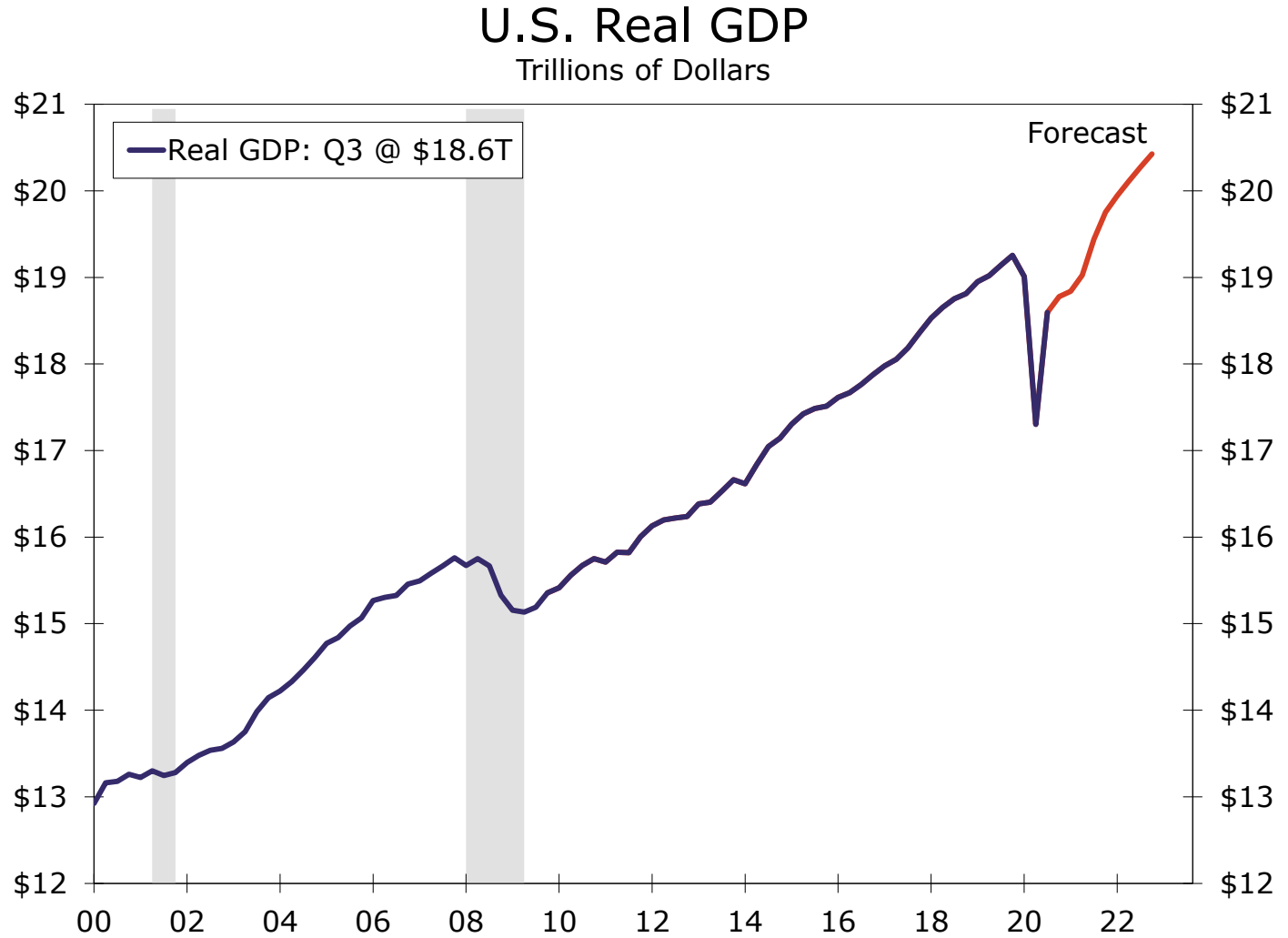
7-Day Moving Average



Growth picked up in the third quarter, but the outlook is for growth to slow as the rebound effect fades.

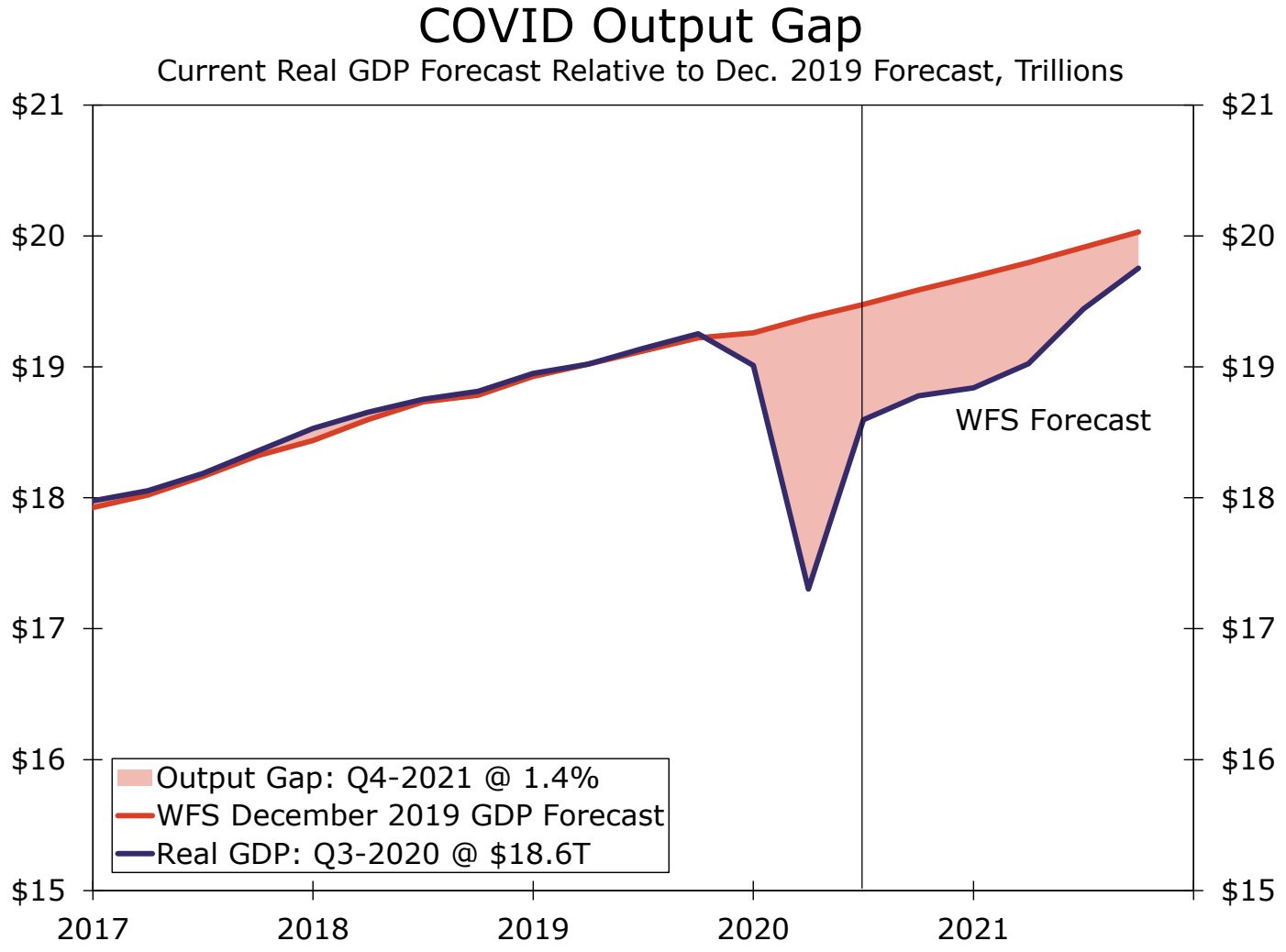


The return to a pre-recession level of output is set for Q3-2021 at this point.



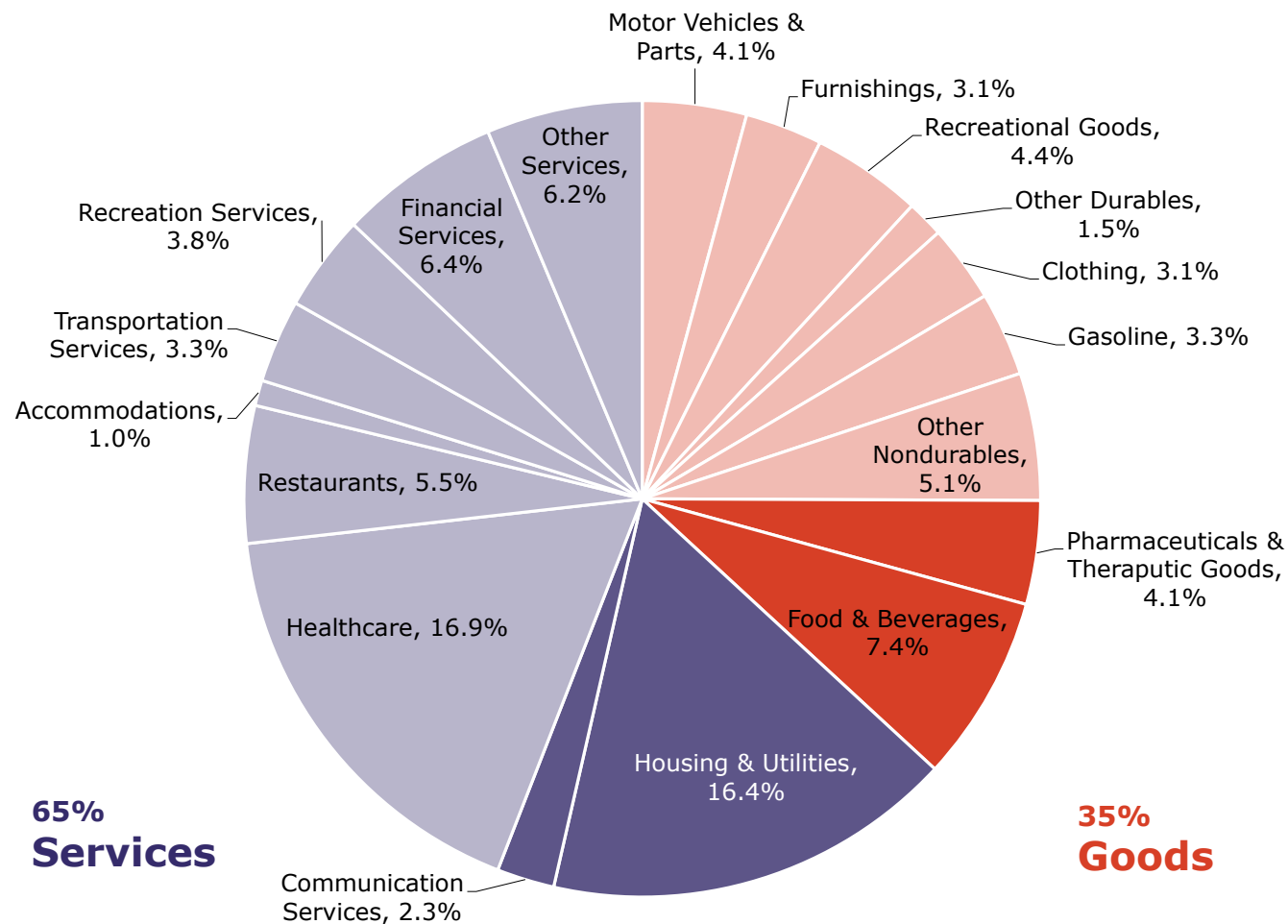
U.S. Output Gap Forecast

Said differently, we expect a sizable output gap for the next few years.



U.S. Consumer Spending: By Detailed Category

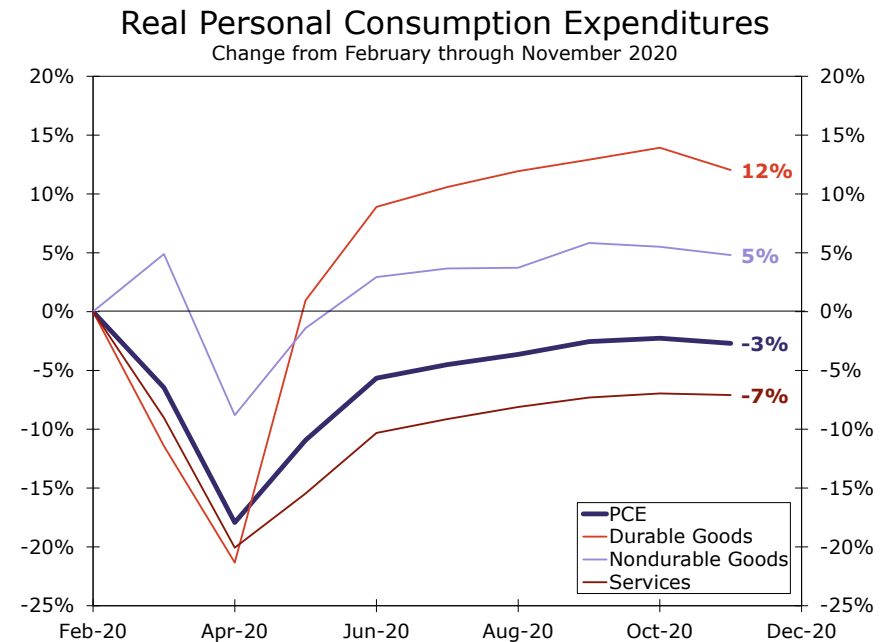
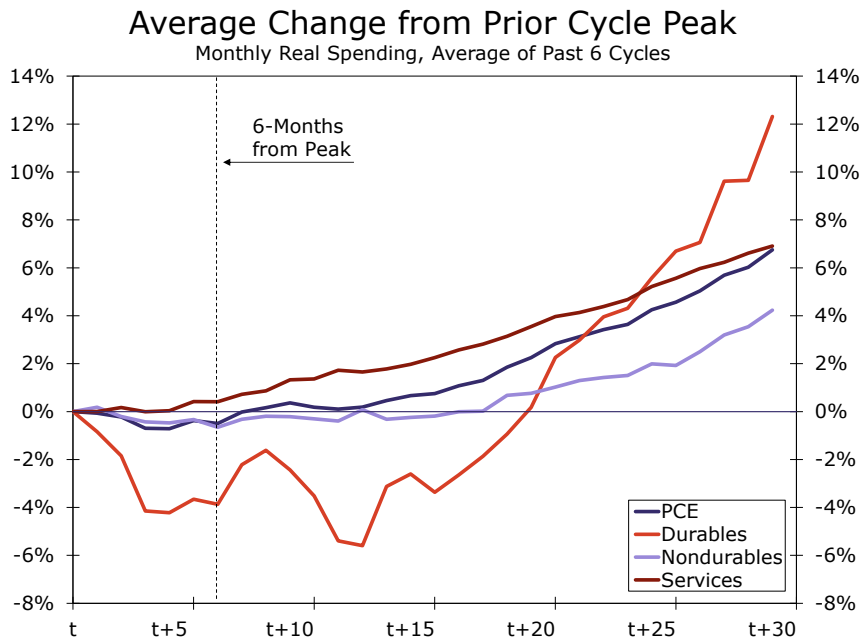
Categories that have seen a pullback in spending account for about two-thirds of consumer spending.



*Darker purple and red shades represent less exposed categories of consumer spending

Consumer Spending

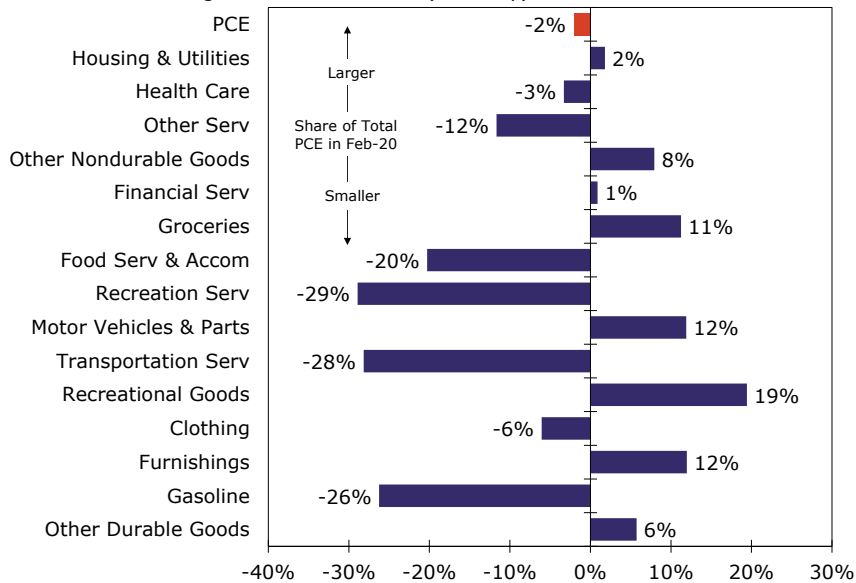
Unique to this cycle, durable goods spending has already recovered while the service sector continues to reel.



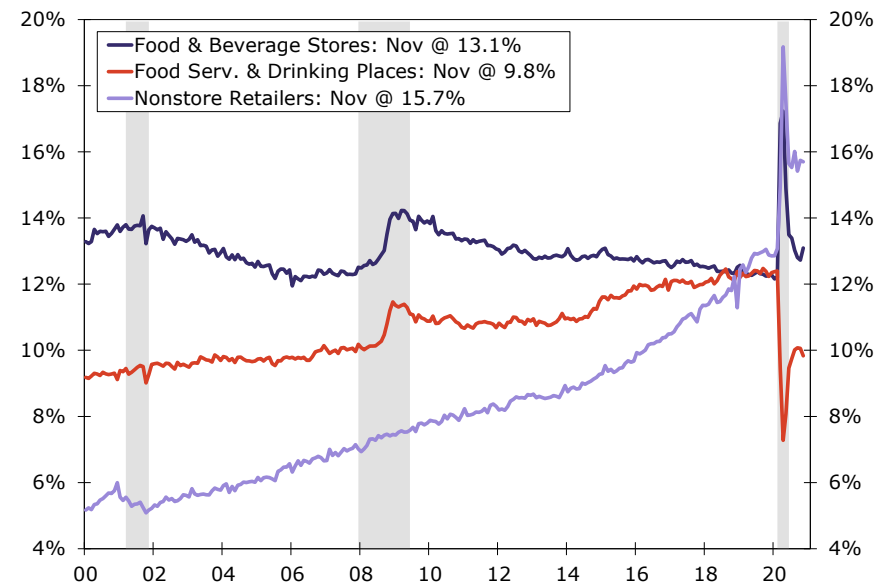
Spending on travel, leisure activities and dining out have been particularly hard hit by social distancing efforts. Nonstore (e-commerce) outlets and groceries have picked up wallet share, but the gain for groceries may prove fleeting.

Personal Consumption by Category

Change from Pre-Pandemic (February) to November 2020



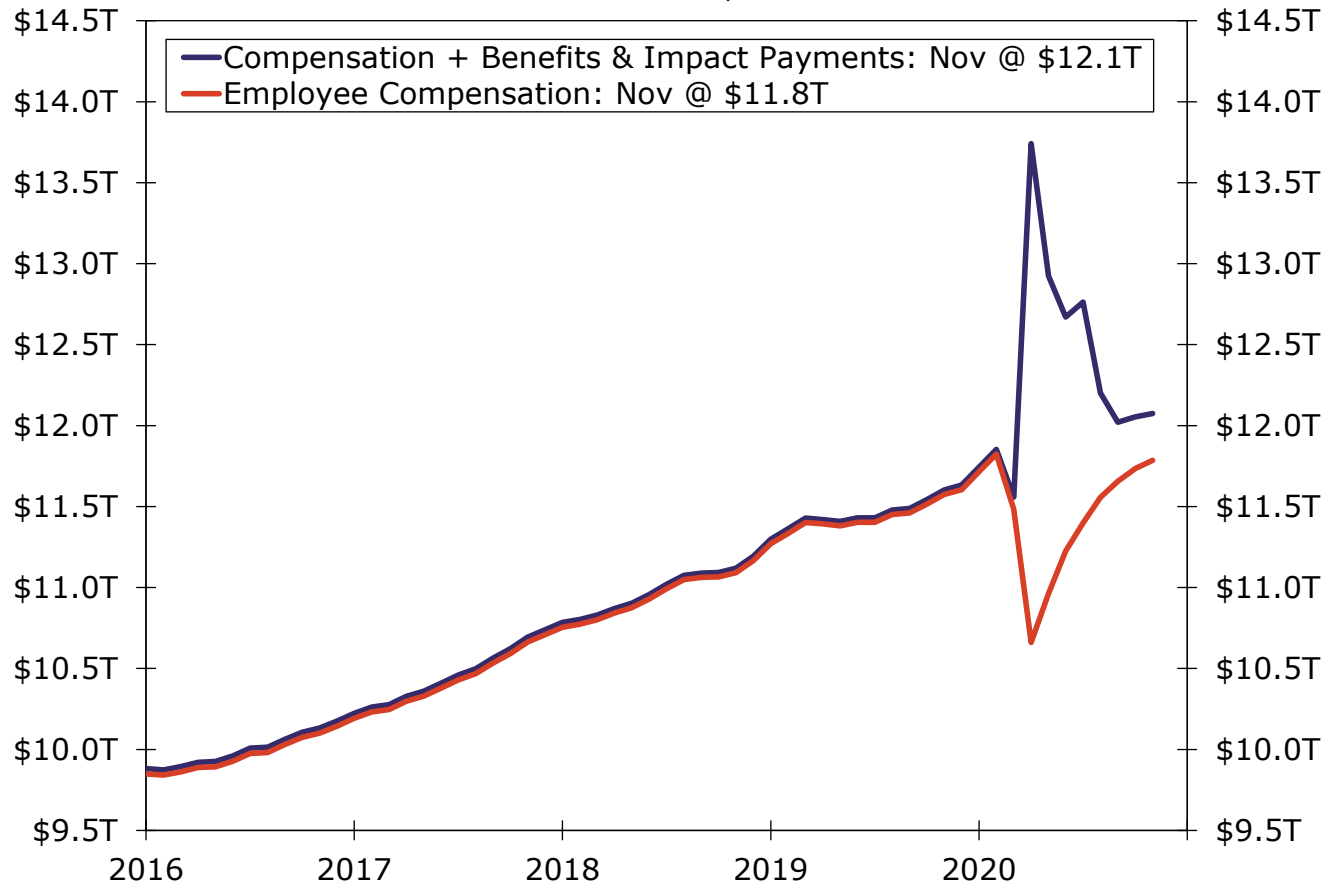
Share of Total Retail Sales



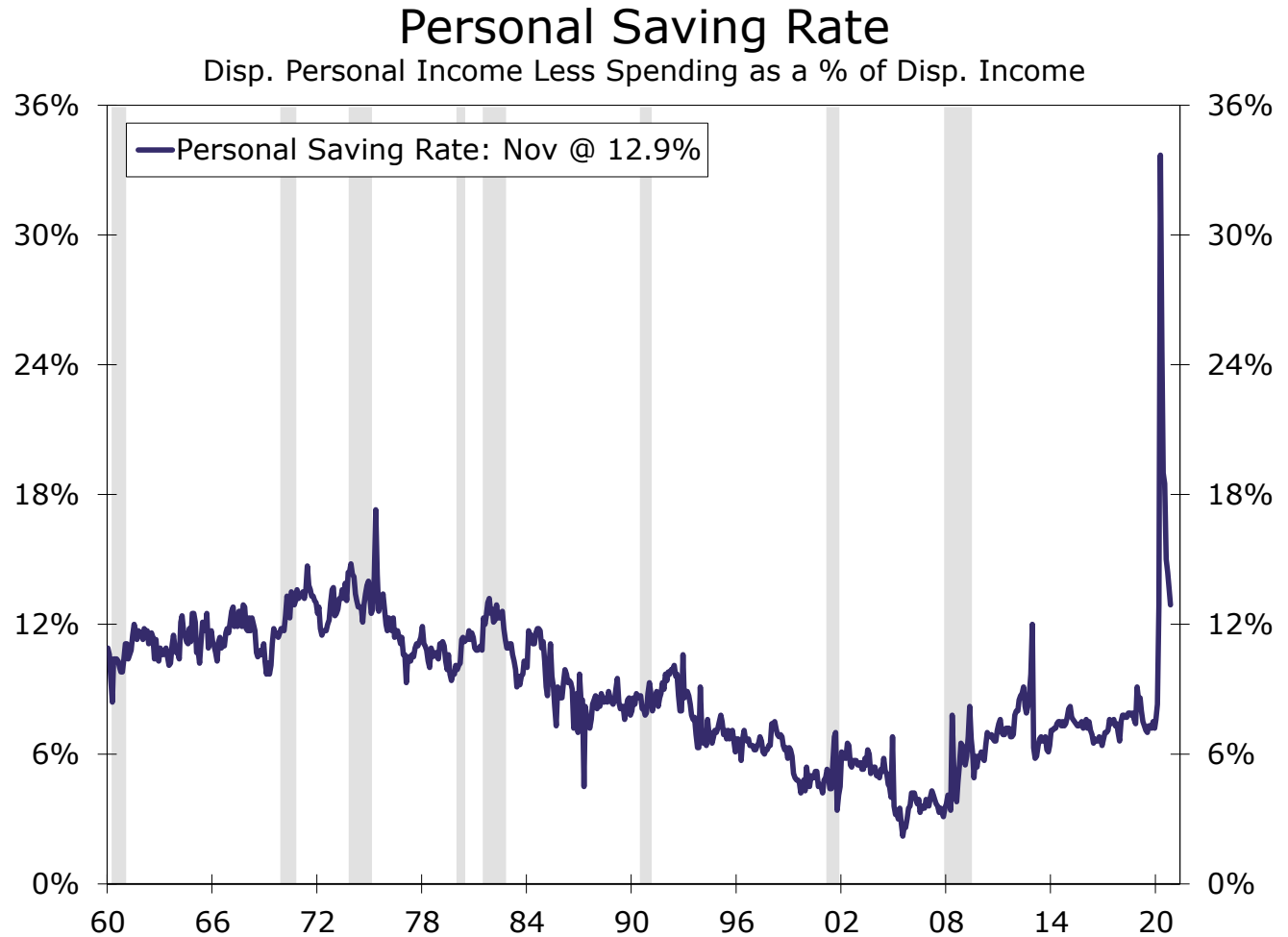
The \$250 billion of transfer payments in April offset the \$90 billion loss in other types of income.

Personal Income: Compensation

Trillions of USD, SAAR



The combination of forced thrift and increased transfer payments is a record surge in saving.

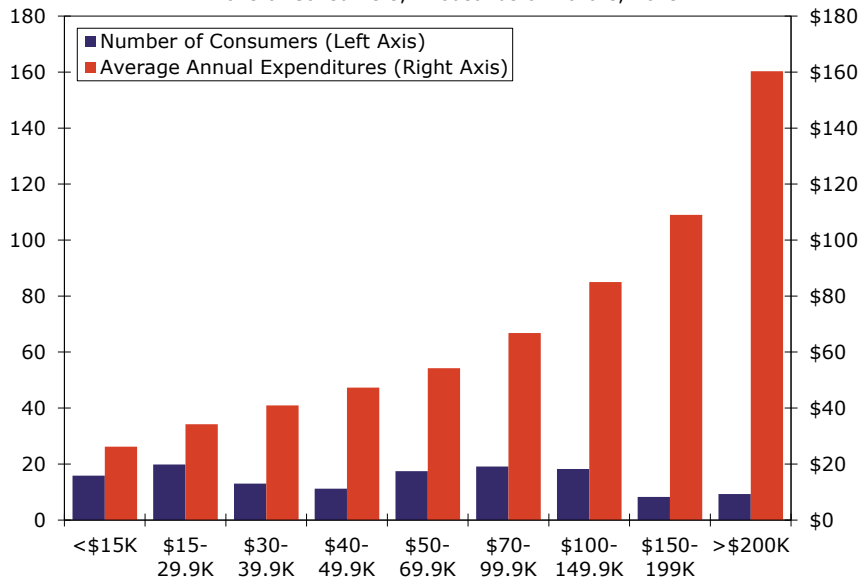


Consumer Spending

High-income spenders, who have largely evaded the worst of the economic fallout, are typically responsible for the bulk of spending in the economy. But all income groups have benefitted from the increased personal saving, providing sufficient funds to fuel spending going forward.

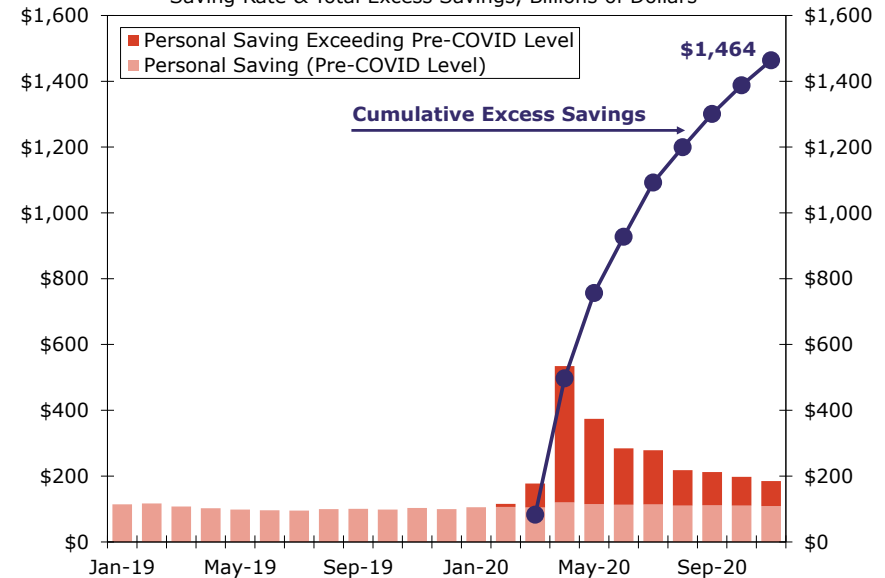
Little Group of Big Spenders

Millions of Consumers; Thousands of Dollars, 2019

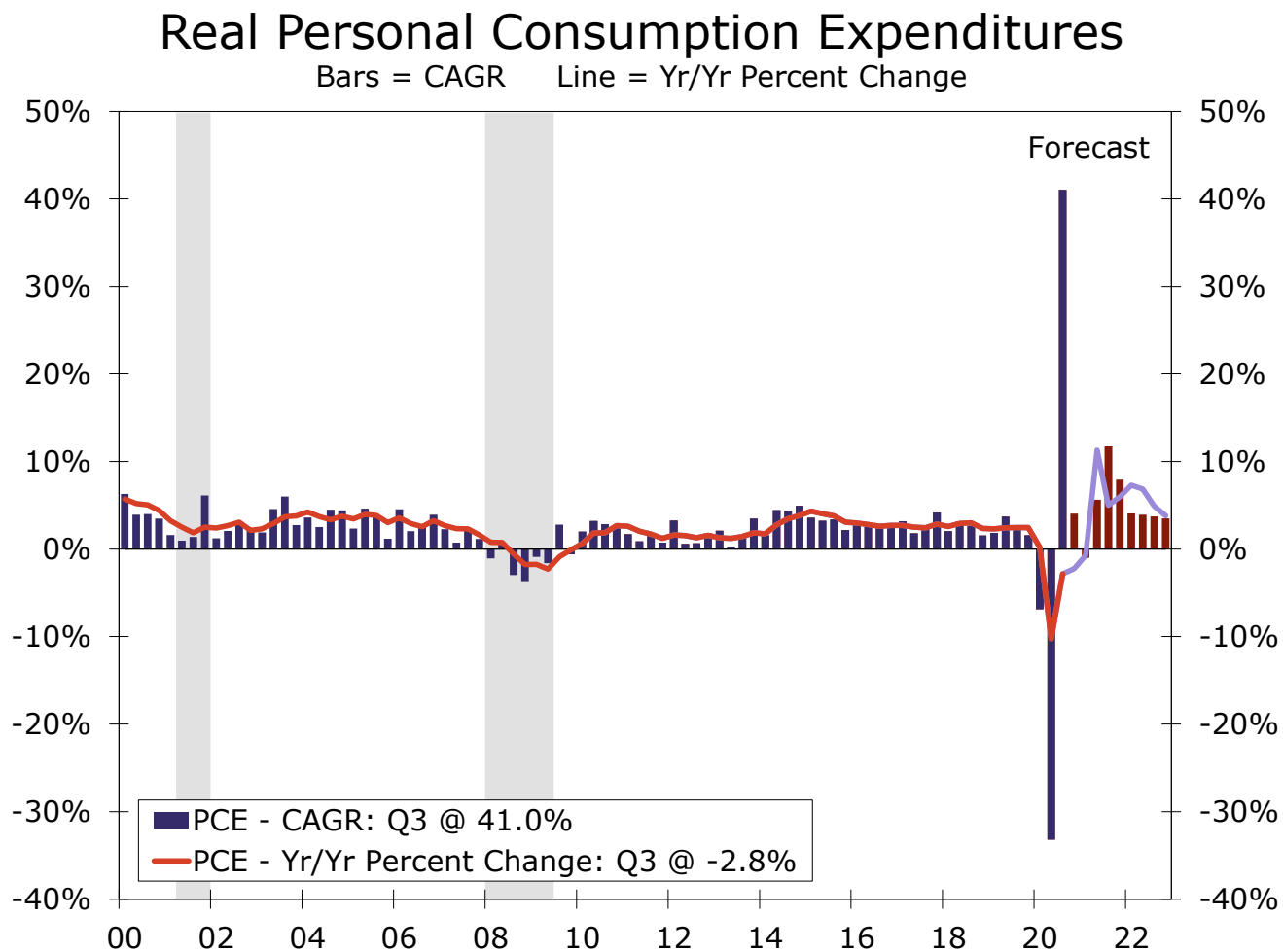


Forced Thrift

Personal Saving Exceeding Pre-COVID Level Based on Dec. 2019 Saving Rate & Total Excess Savings, Billions of Dollars



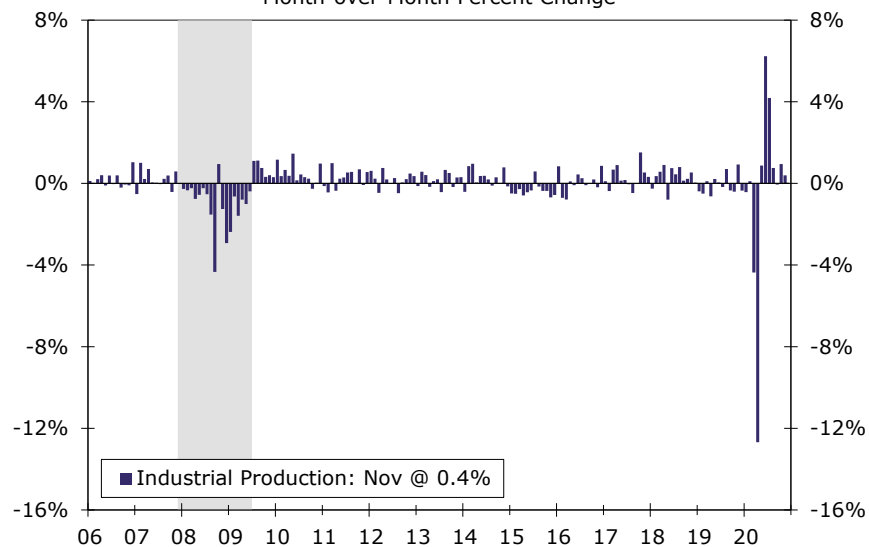
Pent-up demand and forced thrift should result in a quick snapback in consumption after an unprecedented decline.



Industrial production plunged at a record rate, but has since begun to recovery. Still, it will likely be years before we see a full-recovery.

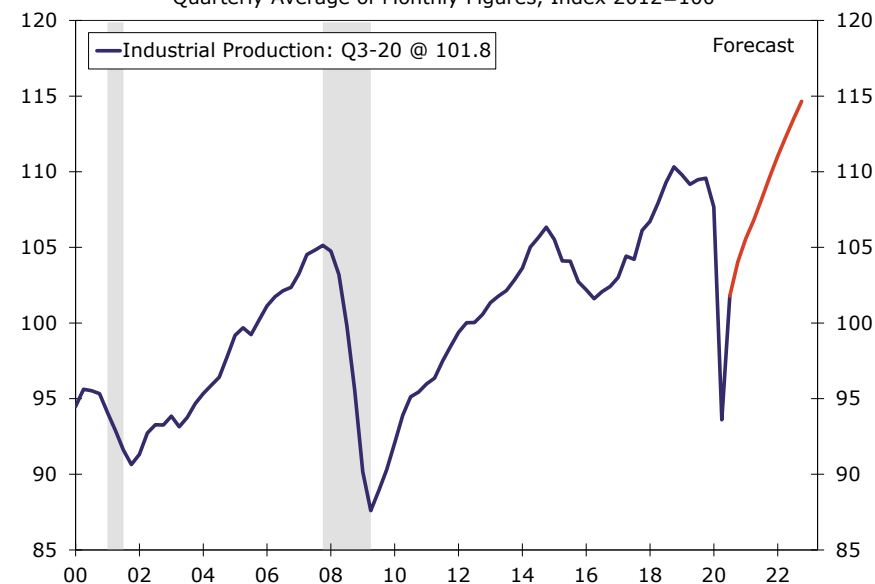
Industrial Production Growth

Month-over-Month Percent Change

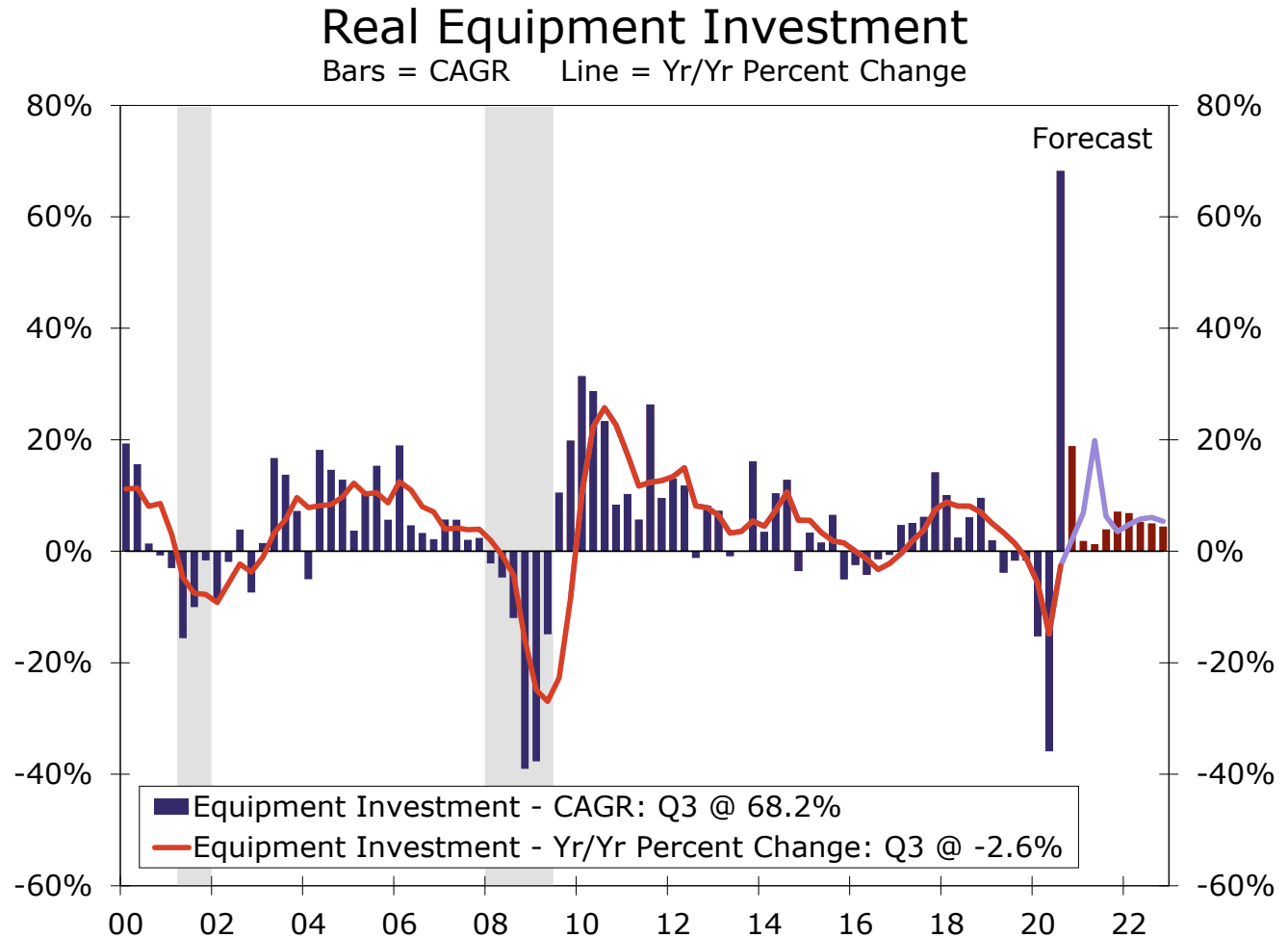


Industrial Production

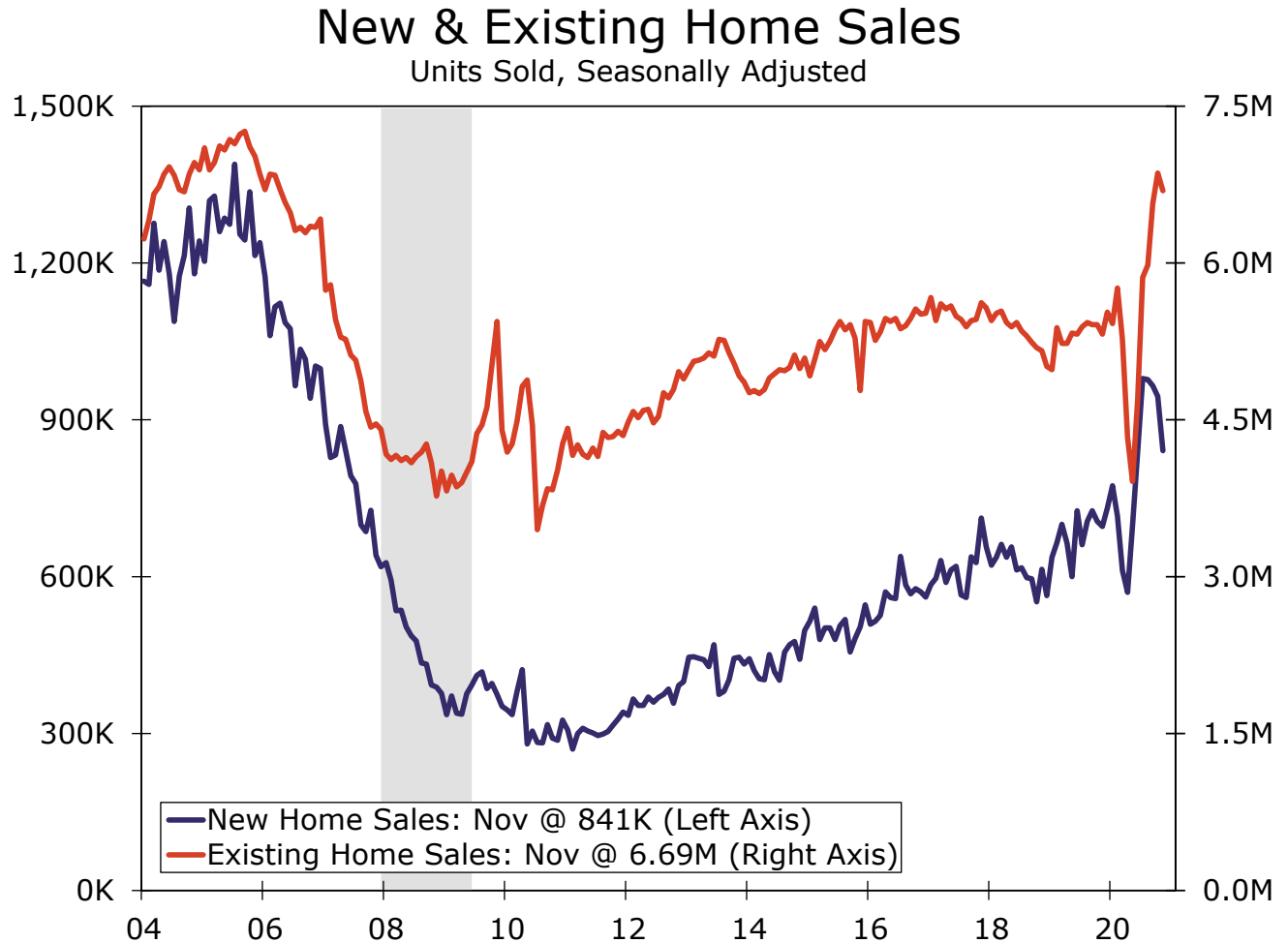
Quarterly Average of Monthly Figures, Index 2012=100



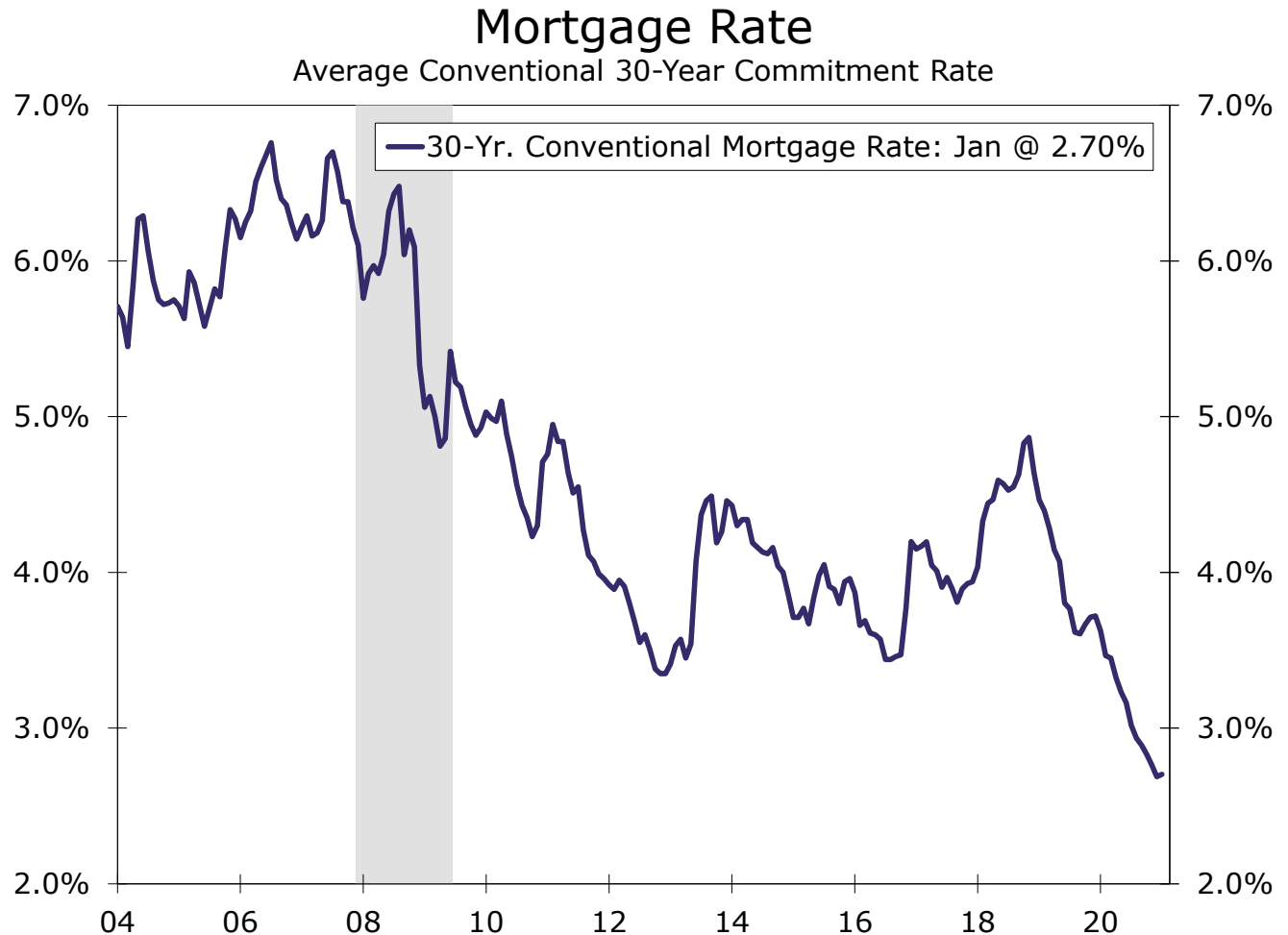
Capital spending should begin to recover, though at a modest pace.



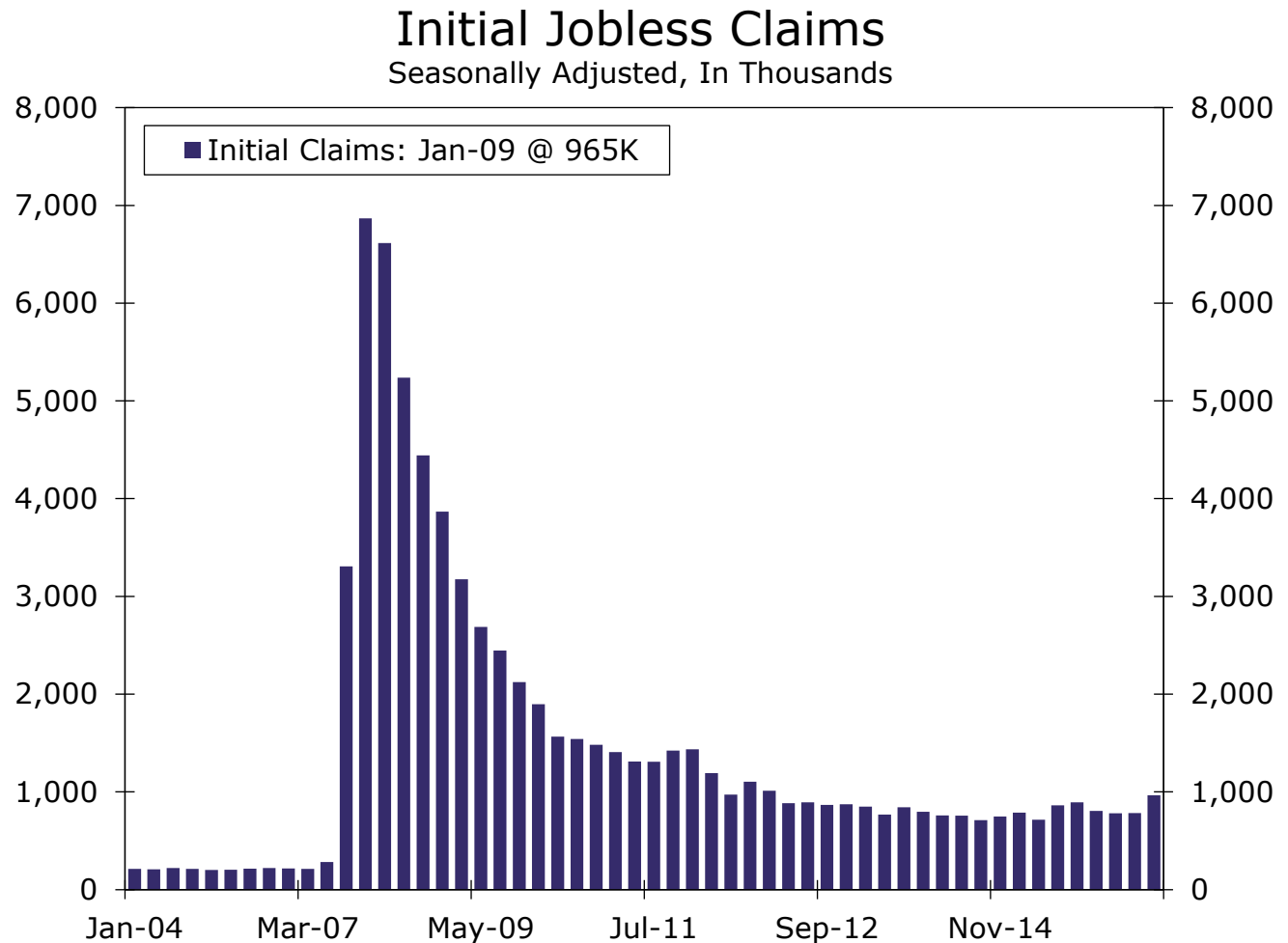
While the rental market has flailed, the purchase market has been buoyant.



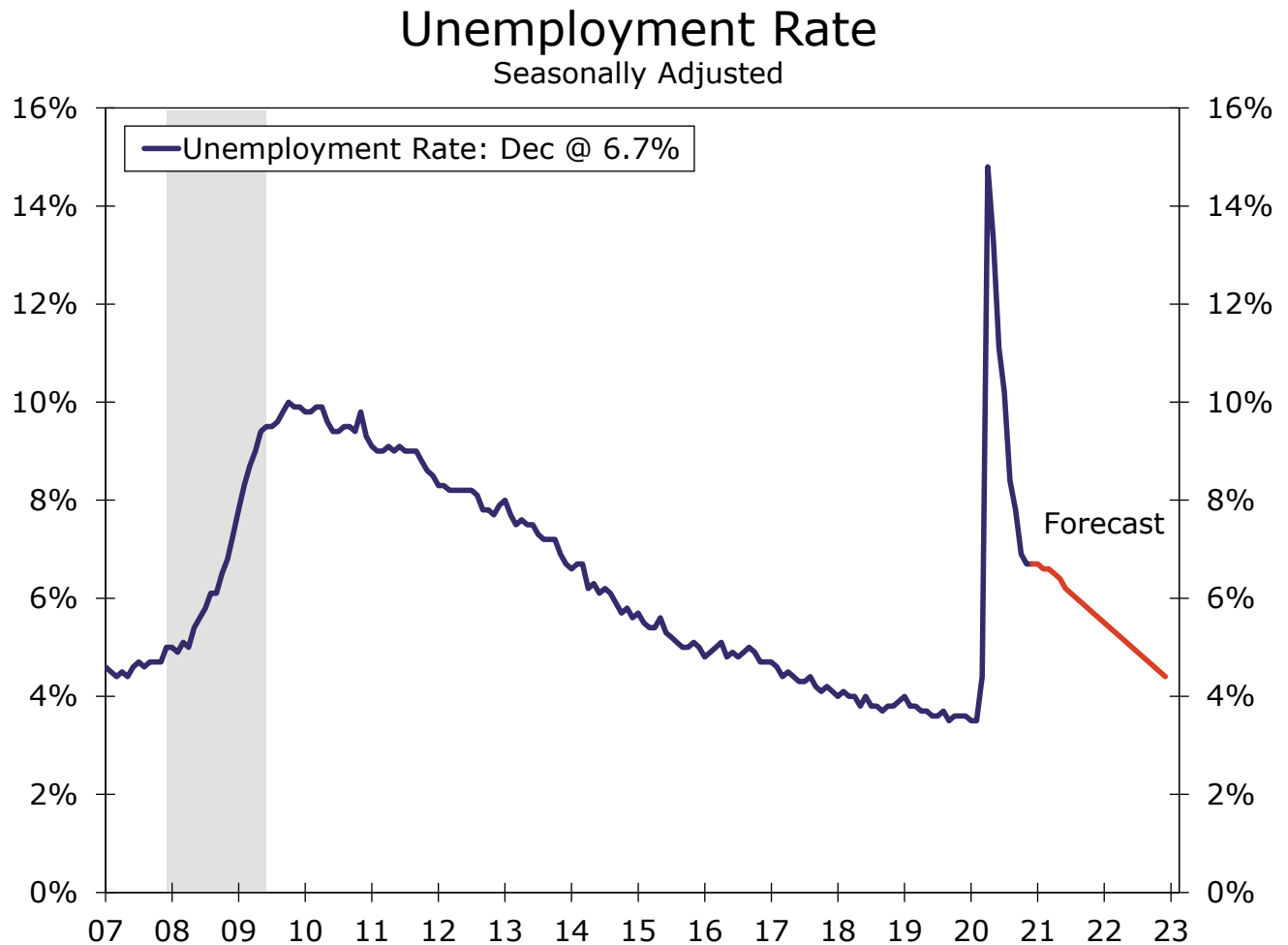
Record-low mortgage rates have been a boon to the housing market during the pandemic...



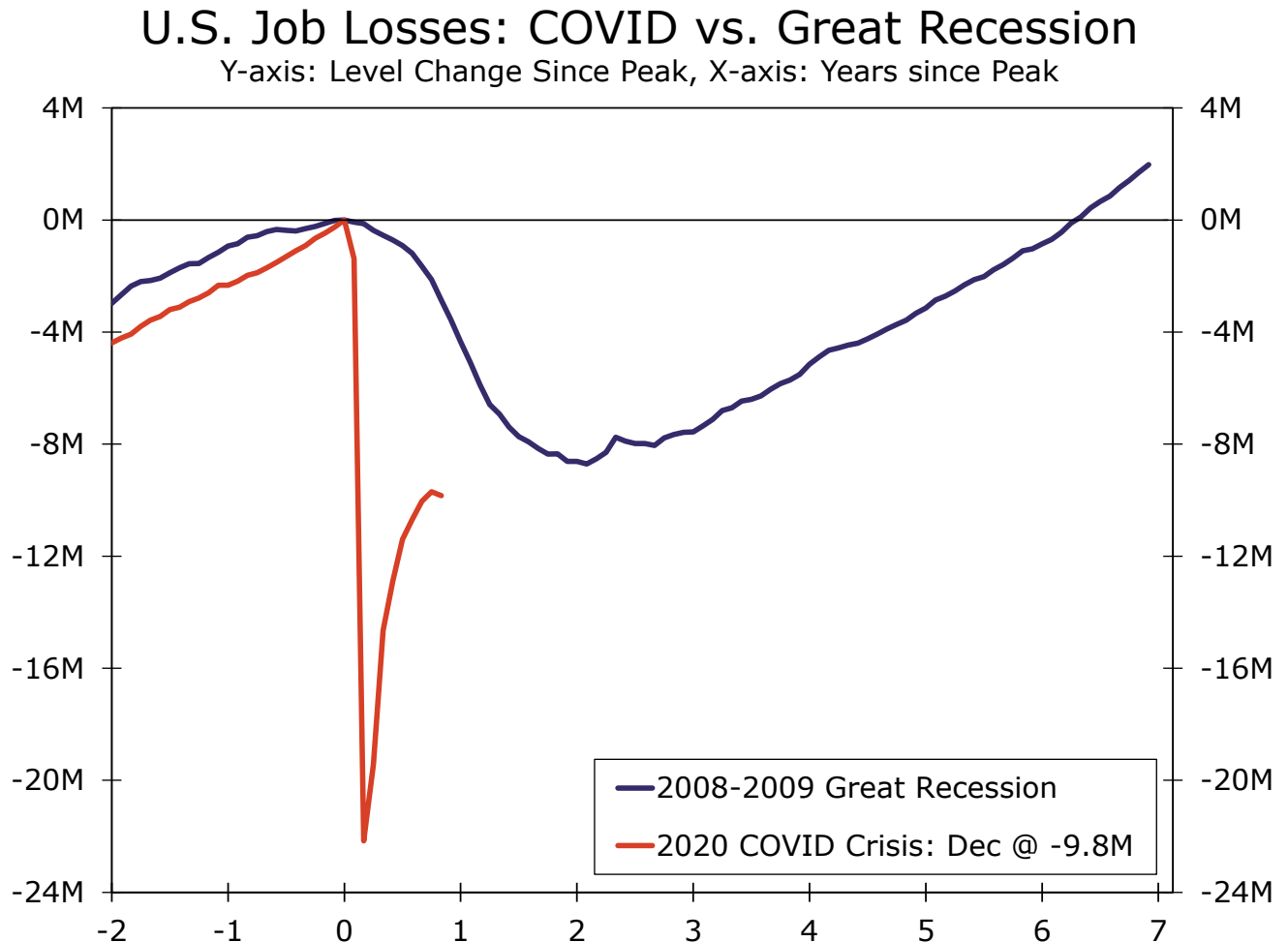
Though the trend is moving in the right direction, claims remain stubbornly high.



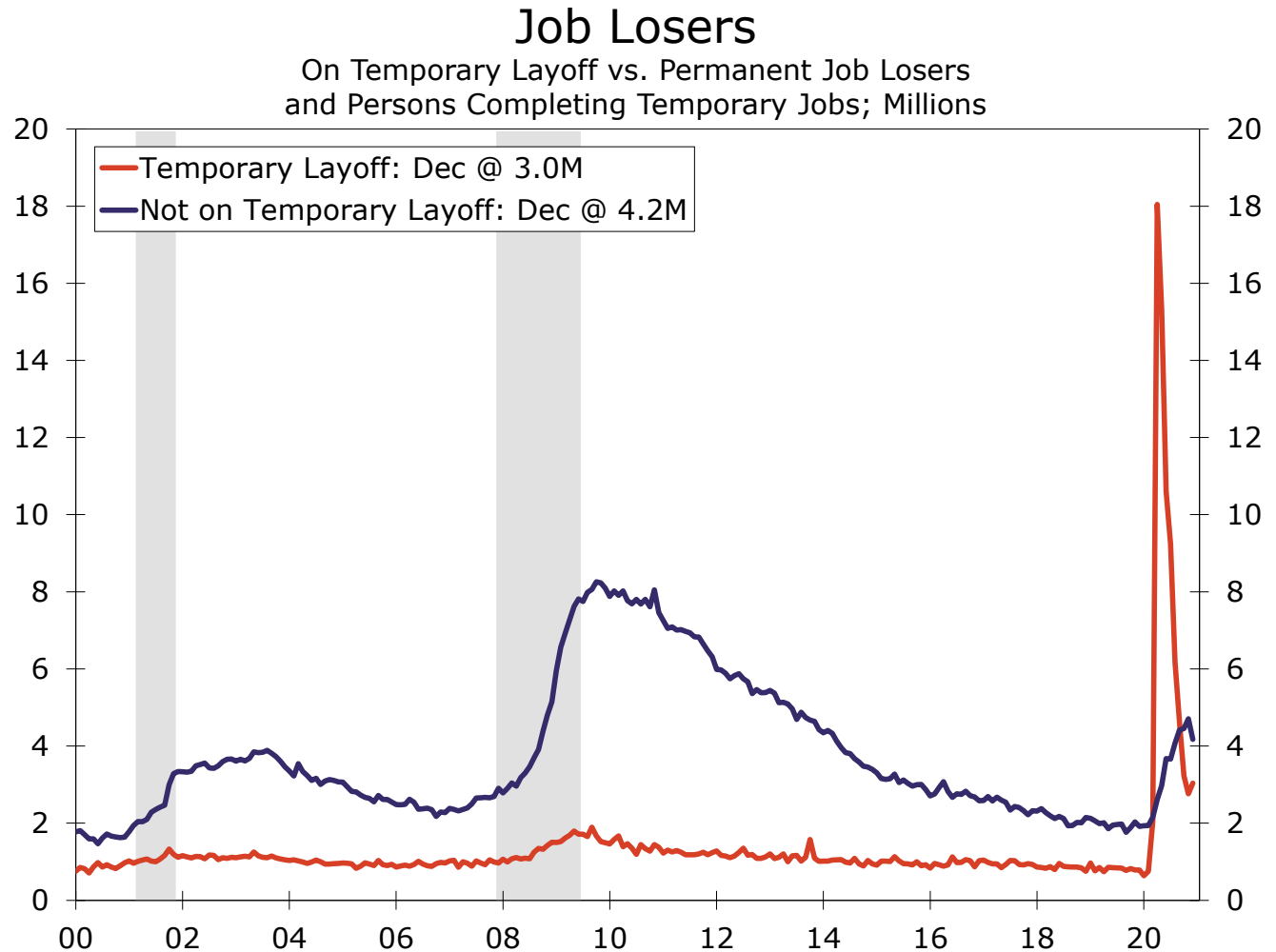
We do not expect the labor market to get back to its pre-virus position for quite some time.



Even after seven months of hiring, we still have bigger job losses than we saw during the financial crisis.



Initially, job losses were mostly temporary losses, but as time as passed, more and more of these “temporary” losses have transitioned to permanent.



Phase 4: Paycheck Protection Program and Health Care Enhancement Act

\$484B

~2% of GDP

*Status: **Passed.*** Became Law on April 24, 2020.

*Targeting: **More money to small businesses & hospitals***

- \$321 billion in additional appropriations to support the Paycheck Protection Program
- \$60 billion for separate disaster loans/grants to small businesses
- \$75 billion for hospitals
- \$25 billion for COVID-19 testing

Phase 5:

~\$1-3T ???

~5-14% of GDP ???

*Status: **In Progress.***

Targeting:

- Extension but possible reduction of weekly unemployment supplement
- Another round of Economic Impact Payments
- Expansion of worker-retention tax credit
- Extension and possible changes to Paycheck Protection Program to small businesses
- Fiscal support to state and local governments
- Support for schools and universities that physically re-open

Recent Commentary

[“Fiscal Policy to the Rescue?”](#) (March 11, 2020)

[“What’s Happening on the Fiscal Front?”](#) (March 17, 2020)

[“The Fiscal Stimulus Bill: What Happens Next?”](#) (March 23, 2020)

[“Congress Unleashes the Fiscal Firehose”](#) (March 26, 2020)

[“What Might a “Phase 4” Fiscal Package Include?”](#) (April 09, 2020)

[“Fiscal Fallout from the COVID-19 Pandemic: Part I”](#) (April 20, 2020)

[“Fiscal Fallout from the COVID-19 Pandemic: Part II”](#) (April 22, 2020)

[“Fiscal Fallout from the COVID-19 Pandemic: Part III”](#) (April 28, 2020)

[“Will It Be a Summer of Stimulus for Congress?”](#) (June 24, 2020)

Fiscal Policy: Breaking Down the Eleventh-Hour Stimulus Package

December 2020 Fiscal Package

Omnibus Appropriations Bill

- Funds normal government operations through FY 2021 (ends Sept 30).
- CBO estimates will lead to **\$1.4T** in discretionary outlays in FY 2021.

COVID Financial Relief

- CARES Act “lite” that is around **\$900B** in size.
- Contributes to unemployment benefits, direct checks to households and small business aid.

(2/3rds of \$900B)

Expanded Unemployment Benefits

- Maximum length of PEUC benefits extended from 13 weeks to **24 weeks** for people who exhausted all regular state benefits.
- PUA program extended to **50 weeks** instead of 39 (can use remainder of 50 weeks to receive benefits through April 3 if have not exhausted).
- PUC provides enhanced benefit with an **extra \$300/week** for those receiving jobless benefits until **Mar. 14**.

Direct Household Checks

- **\$160B** in total: **\$600** for single filers (\$75K or less per year), **\$1,200** for joint filers (\$150K or less per year) and **\$600** per child. Payments gradually phase out as annual income increases.

Small Business Aid

- **\$285B** more in PPP loans and **\$40B** more in Economic Injury Disaster Loan advances, emergency grants to entertainment venues & other assorted small business relief.

(1/3rd of \$900B)

State and Local Funding

- Conditional funding to a variety of state and local services (no direct grants) such as: K-12 education (**+\$54B**), higher education (**+\$23B**), transit agencies (**+\$14B**) and highway transportation (**+\$10B**).

CARES Act CRF Authority

- Extends authority to spend the **\$150B** given to state and local governments in the CARES Act through 2021.

Other Forms of Aid

- Farm aid (**+\$11B**), airline payroll support (**+\$15B**), loan forgiveness for the United States Postal Service (**+\$10B**) and health care measures (**+\$60B**).

Biden versus Trump: Fiscal Policy

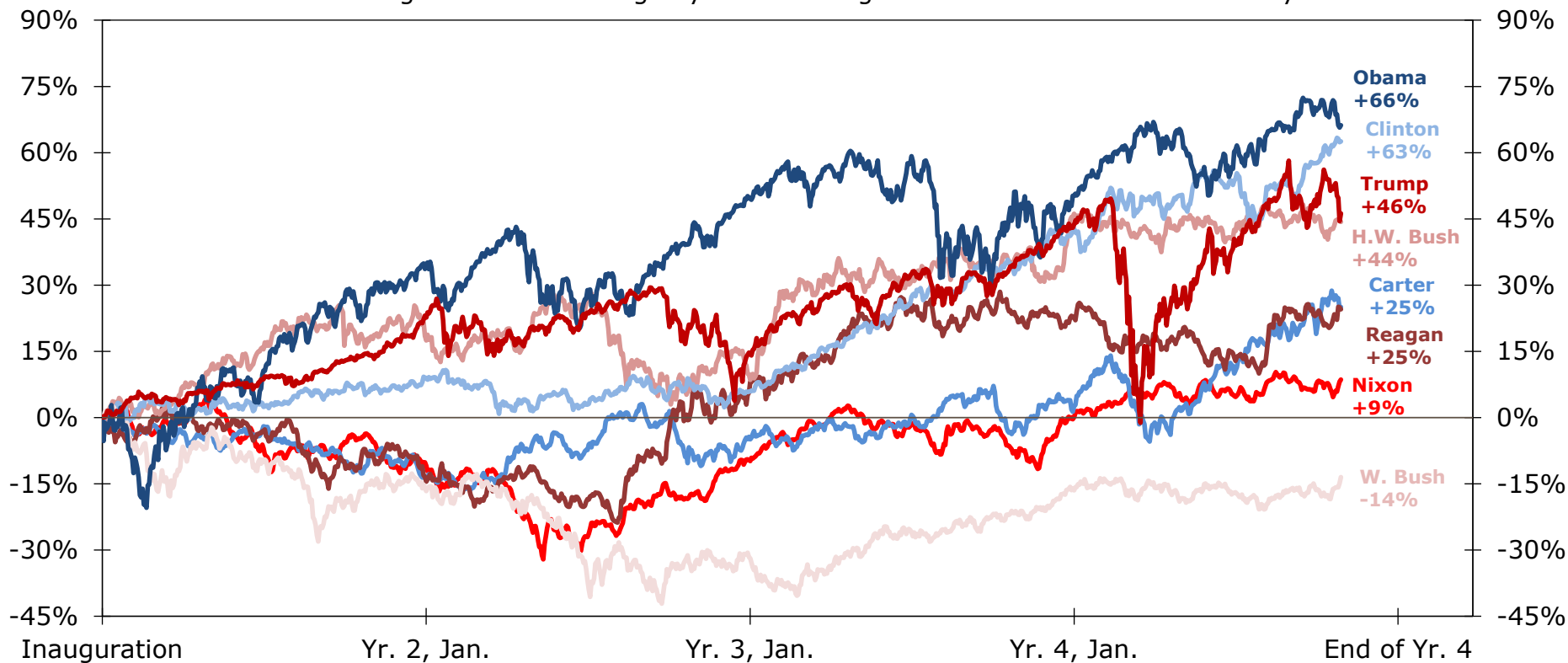
- In total, the Penn-Wharton Budget Model projects that Biden's platform would raise \$3.4 trillion in revenue while increasing spending by \$5.4 trillion over the next ten years.
- That increase in spending could be even larger, however, as this PWBM analysis does not include most of the items being discussed in another COVID-relief bill.

2020 Presidential Candidates' Economic Policy Positions			
	Tax Policy		Spending Proposals
	Individual	Corporate	
Biden	<ul style="list-style-type: none"> • Restore top individual tax rate to 39.6% from 37% for individuals earning over \$400K • Tax capital gains as ordinary income for those earning over \$1 million • Subject earnings above \$400K to 12.4% Social Security payroll tax • Limit tax benefit of itemized deductions at 28% of value for those earning over \$400K • Repeal step-up in basis for capital gains tax • Re-establish First Time Homebuyer tax credit • Expansion of Child Tax Credit to \$3,000 per child 6-17 yrs. & \$3,600 per child >6 yrs 	<ul style="list-style-type: none"> • Raise the corporate tax rate to 28% from 21% • Double the tax rate on Global Intangible Low Tax Income (GILTI) earned by foreign subsidiaries of US firms to 21% from 10.5% • 15% minimum tax on book income for corporations with at least \$100 million in annual income • Establish "financial risk fee" on certain liabilities of financial institutions with over \$50B in assets 	<ul style="list-style-type: none"> • Tuition-free public college for families with incomes <\$125,000 • Two years of tuition-free community college • Federally-funded universal Pre-K • Triple Title I school funding • Roughly \$2T public investment plan to promote clean energy, support infrastructure projects and residential housing spending • Increase Social Security's minimum benefit & boost payments for those receiving benefits for >20 yrs • Increase the size of ACA subsidies • Implement a public health insurance option • Forgive a minimum of \$10,000 of federal student loan debt per person & increase the generosity of income-based student loan payments
Trump	<ul style="list-style-type: none"> • Make temporary individual provisions of TCJA permanent (e.g. modified tax rates, expanded standard deduction) • Forgiveness of deferred payroll tax • Payroll tax cut? • Cut capital gains tax rates? 	<ul style="list-style-type: none"> • Make temporary corporate provisions of TCJA permanent (e.g. full expensing) 	<ul style="list-style-type: none"> • Increase infrastructure spending • Increase defense spending?

There is no discernable trend in equity markets favoring either party.

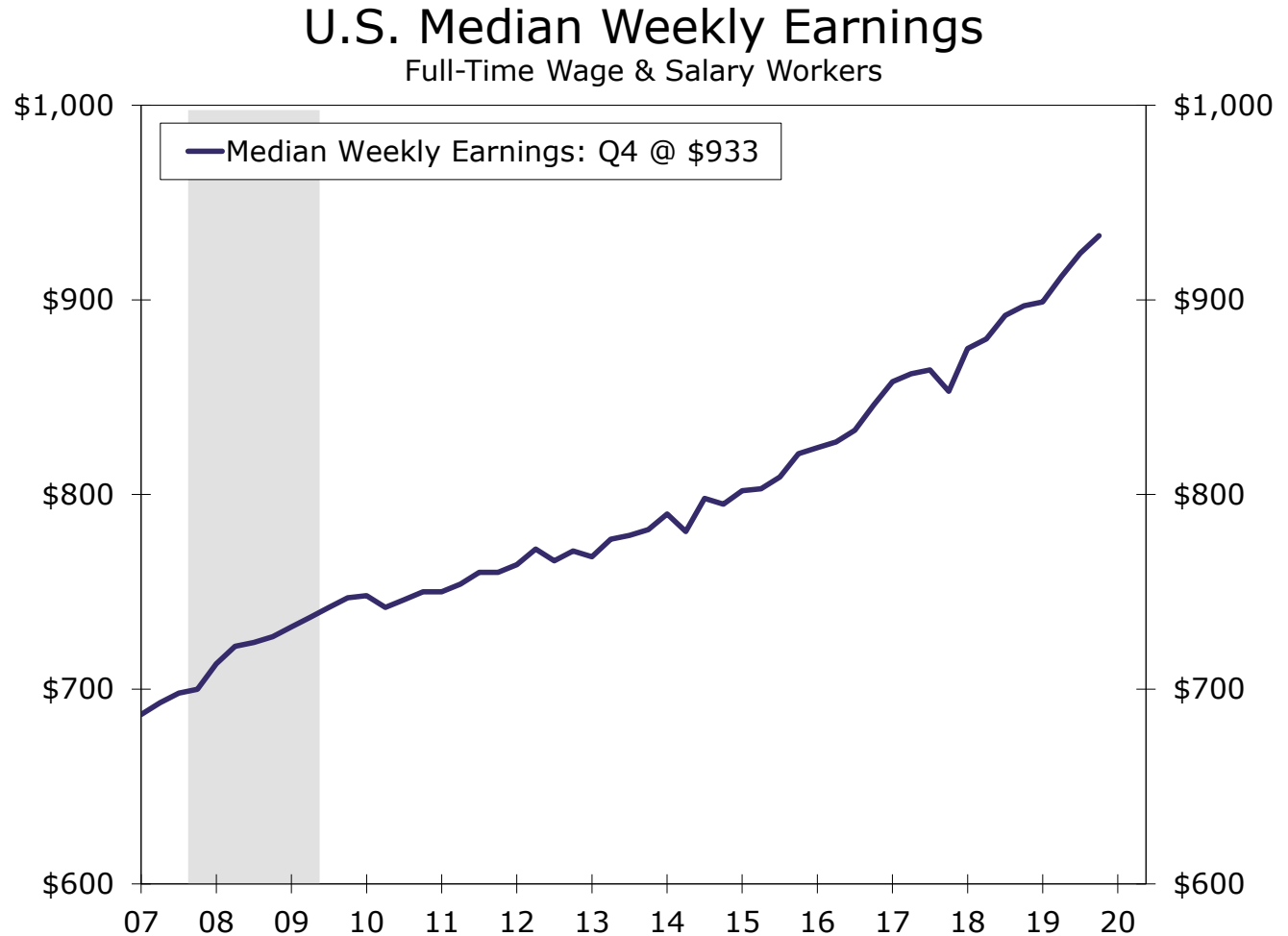
S&P 500 During Presidents' First Term

Percent Change from last trading day before Inauguration to end of October in 4th year



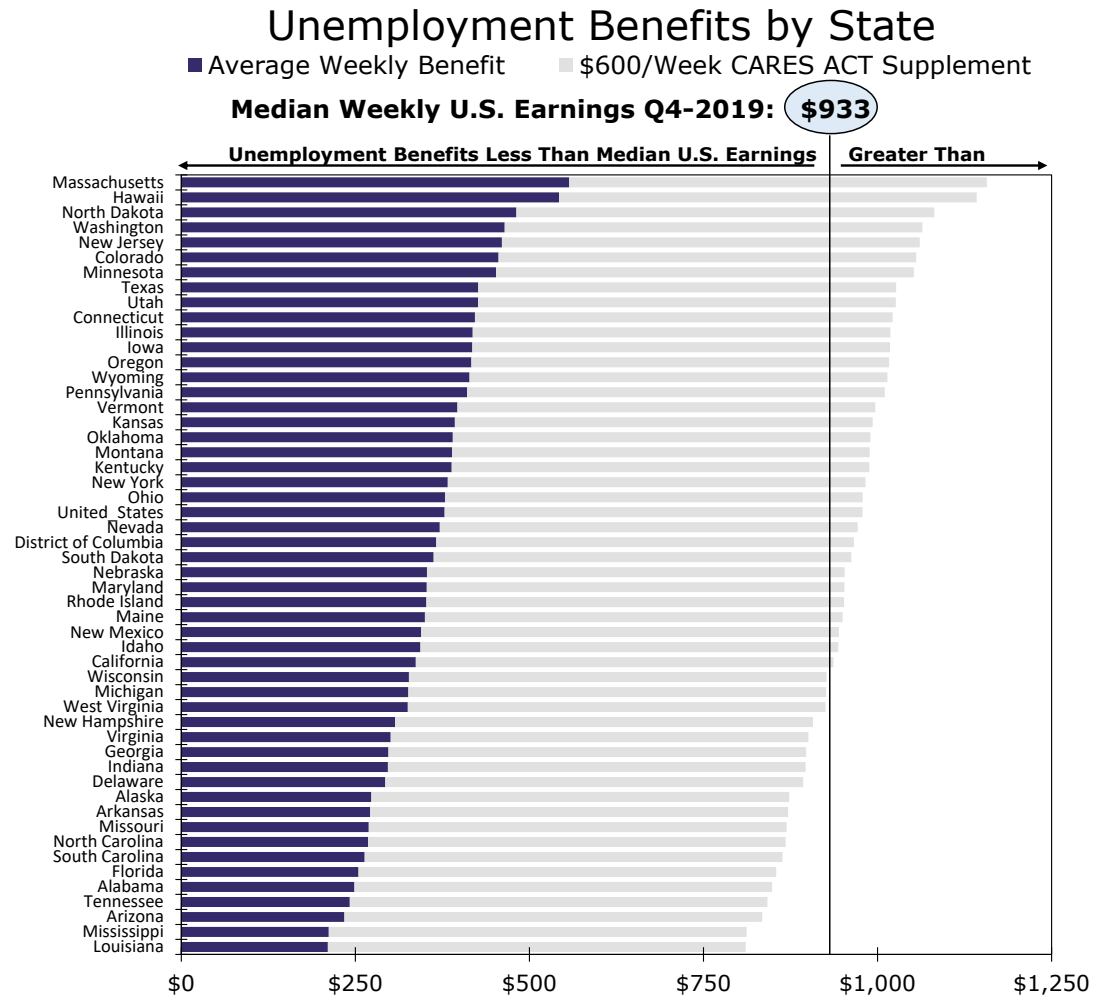
U.S. Employment: Median Weekly Earnings

Median weekly earnings for a full-time worker in the United States is \$933.



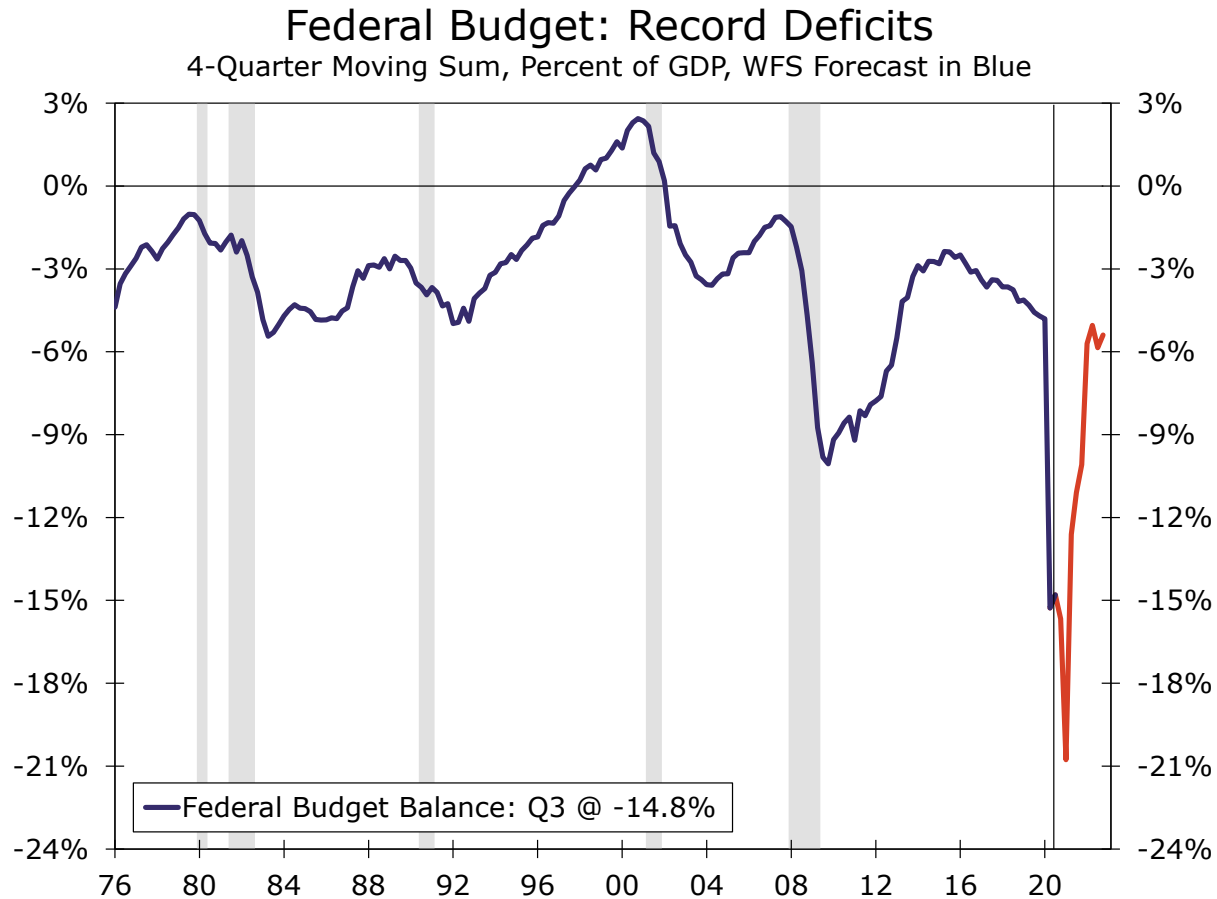
U.S. Unemployment Benefits by State

Another round of stimulus is unlikely to be as generous to households.



The Deteriorating Budget Dynamic

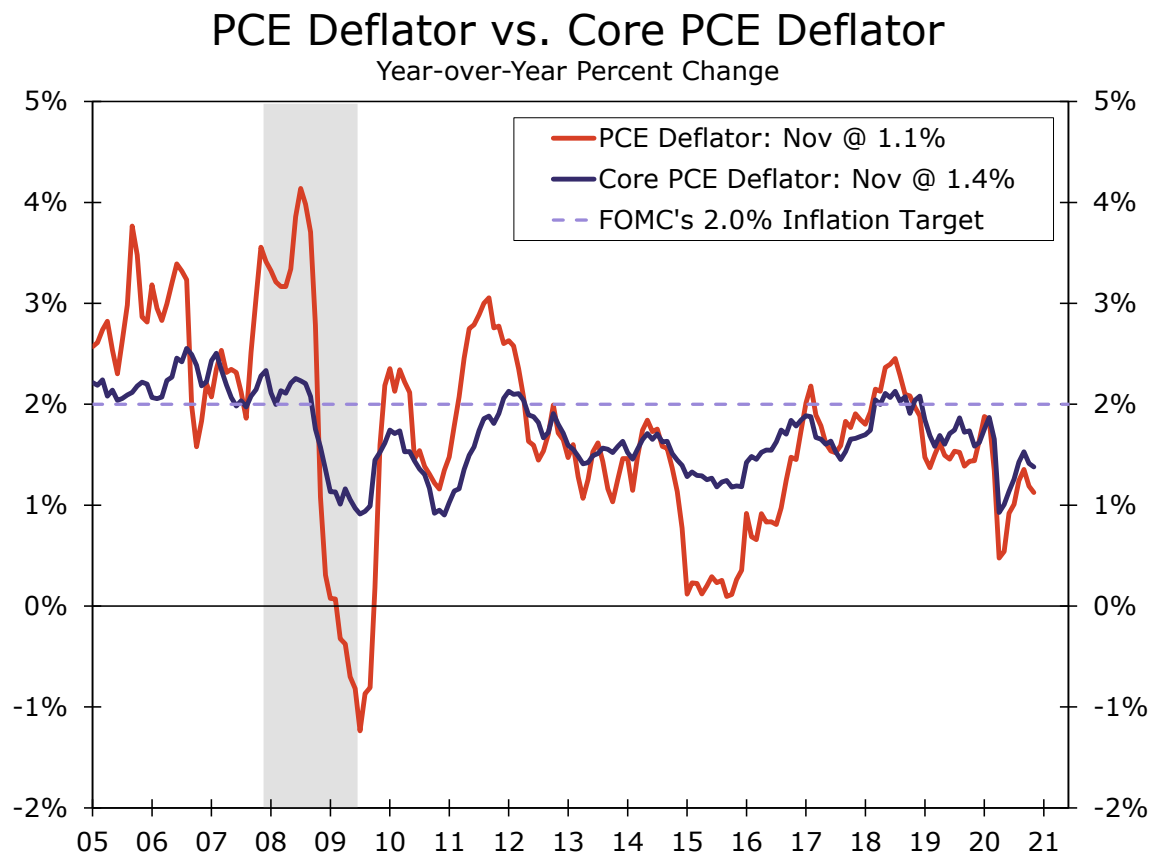
The United States will run the biggest federal budget deficit since World War II in FY 2020.



Source: U.S. Department of Commerce and Wells Fargo Securities

Stubbornly Low Inflation

Inflation barely breached target 2% inflation even over the record-long expansion. Despite the pandemic being largely considered a disinflationary event, could the current environment be different enough to where we finally see inflation taking off?

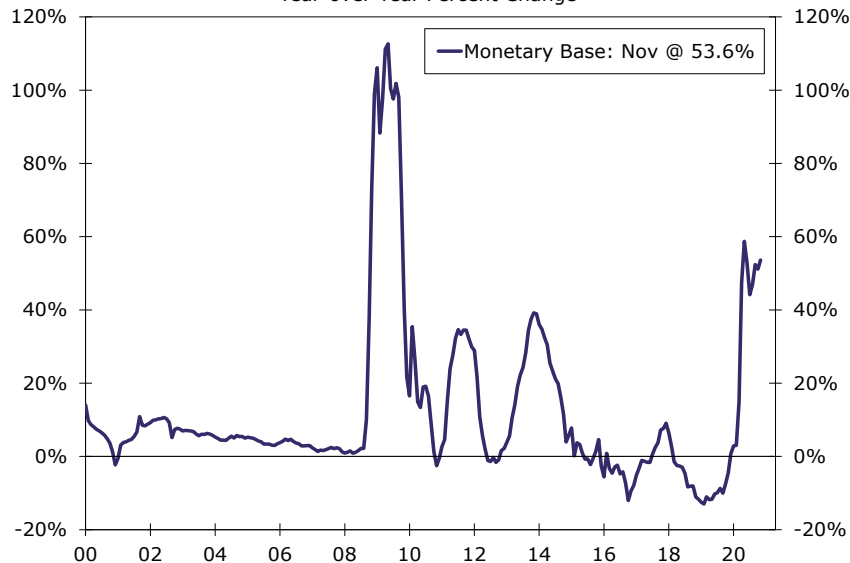


Source: U.S. Department of Commerce and Wells Fargo Securities

Increased Money Supply: Is the Fed “Printing too Much Money”

The Fed has pumped significant liquidity into the economy, but so far the growth in the monetary base is slower than what occurred from 2008-2009. M2 growth, however, has exploded as Congress’ designed numerous fiscal measures to put cash directly into the hands of households.

Money Supply Growth: Monetary Base
Year-over-Year Percent Change

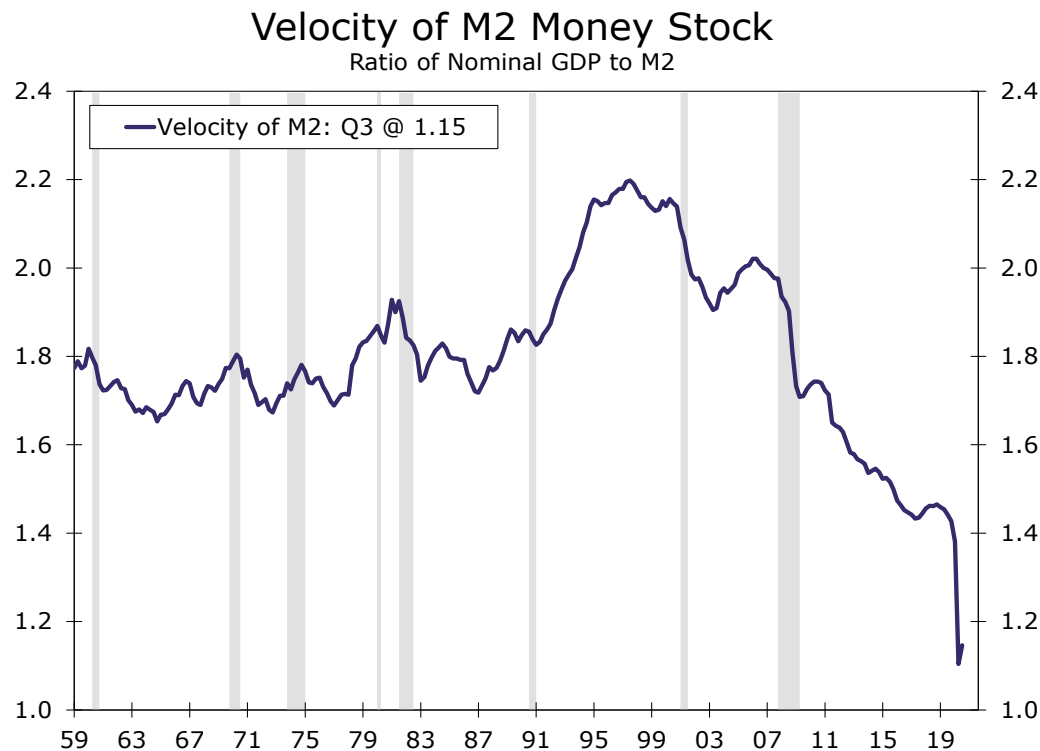


Money Supply Growth: M2
Year-over-Year Percent Change



A Collapse in the Velocity of Money

But, currently this cash is just sitting idly, as the pandemic has shifted aspects of American economic life. Additional stimulus and a medical breakthrough that helps life return to “normal” could generate a jump in inflation, but fading fiscal stimulus and ongoing weakness in the labor market suggest the velocity of money will likely remain low and M2 growth will likely slow significantly.



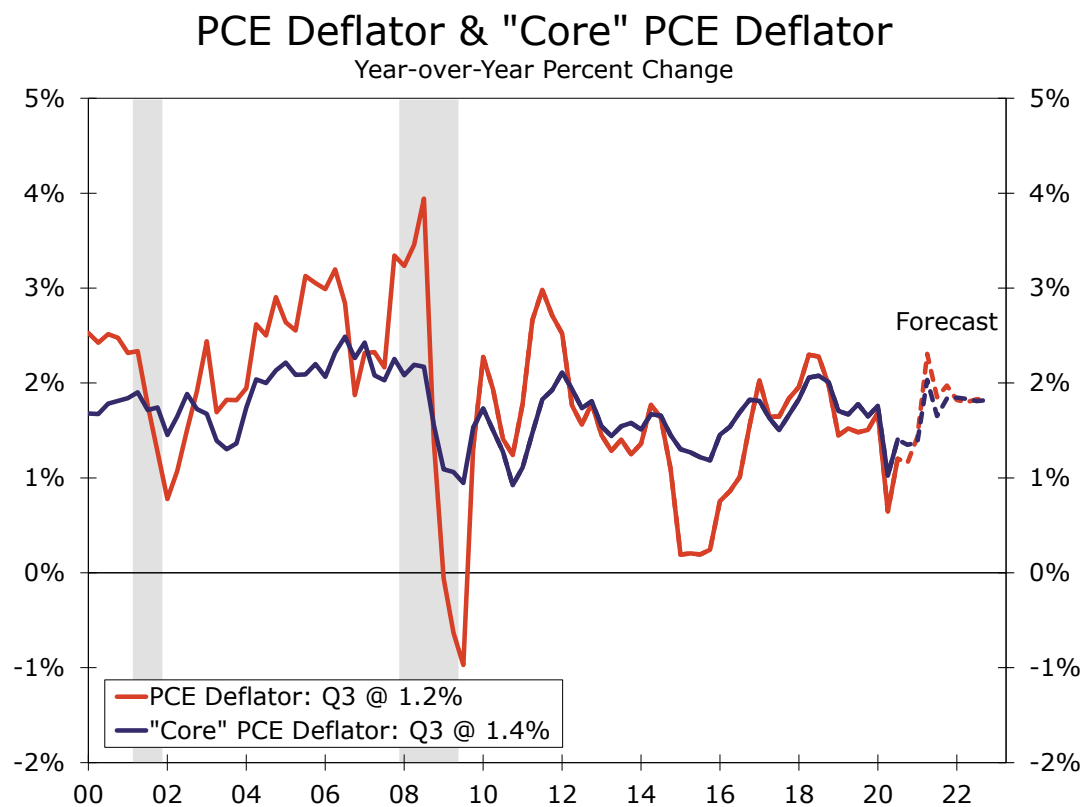
Source: Federal Reserve Board and Wells Fargo Securities

Higher Inflation Expectations

COVID-19 has redirected consumers' spending habits influencing the prices they encounter and significantly driving up inflation expectations—a belief that could become self-fulfilling. But, even with the recent pop, long-term expectations remain historically low and show signs of plateauing.



Despite ingredients for an era of stronger inflation, we still expect inflation will struggle to meet 2% on a sustained basis the next couple of years. Many of the disinflationary forces—technological innovation, slow global growth—that prevailed over the past decade have not fallen by the wayside.





Thank You

Tim Quinlan

Senior Economist | Wells Fargo Securities, LLC
tim.quinlan@wellsfargo.com | 704-410-3283

Wells Fargo Securities Economics Group

Economists & Macro Strategists

Jay H. Bryson, Chief Economist	jay.bryson@wellsfargo.com
Mark Vitner, Senior Economist	mark.vitner@wellsfargo.com
Sam Bullard, Senior Economist	sam.bullard@wellsfargo.com
Nick Bennenbroek, International Economist	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan, Senior Economist	tim.quinlan@wellsfargo.com
Azhar Iqbal, Econometrician	azhar.iqbal@wellsfargo.com
Sarah House, Senior Economist	sarah.house@wellsfargo.com
Charlie Dougherty, Economist	charles.dougherty@wellsfargo.com
Michael Pugliese, Economist	michael.d.pugliese@wellsfargo.com
Brendan McKenna, International Economist	brendan.mckenna@wellsfargo.com
Shannon Seery, Economist	shannon.seery@wellsfargo.com

Economic Analysts

Jen Licis, Economic Analyst	jennifer.licis@wellsfargo.com
Hop Mathews, Economic Analyst	hop.mathews@wellsfargo.com
Sara Cotsakis, Economic Analyst	sara.cotsakis@wellsfargo.com
Nicole Cervi, Economic Analyst	nicole.cervi@wellsfargo.com

Administrative Assistants

Coren Burton, Administrative Assistant	coren.burton@wellsfargo.com
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