

WELLS  
FARGO

SECURITIES

# The U.S. & Global Economic Outlook

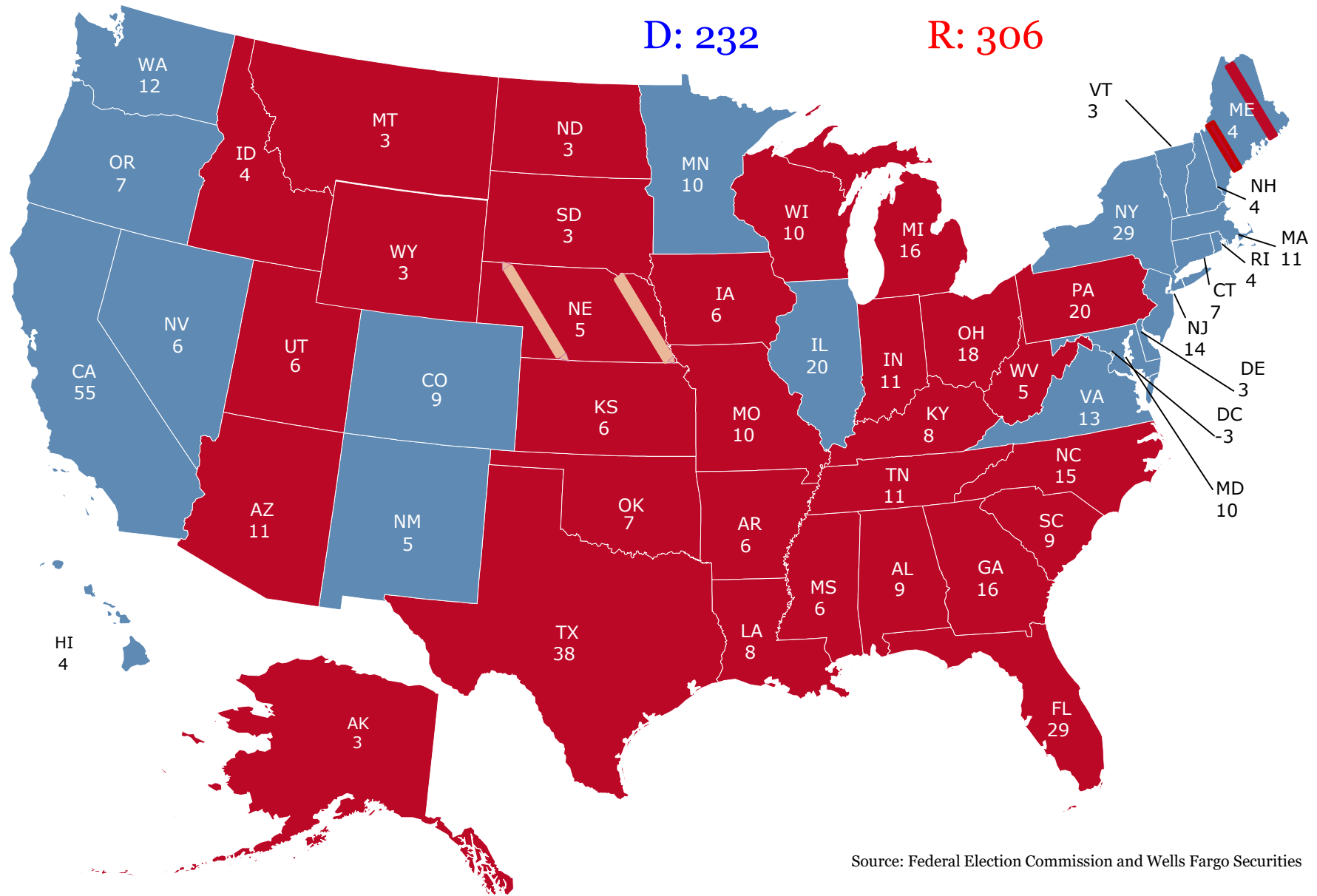
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Michael Pugliese, Economist

November 2020

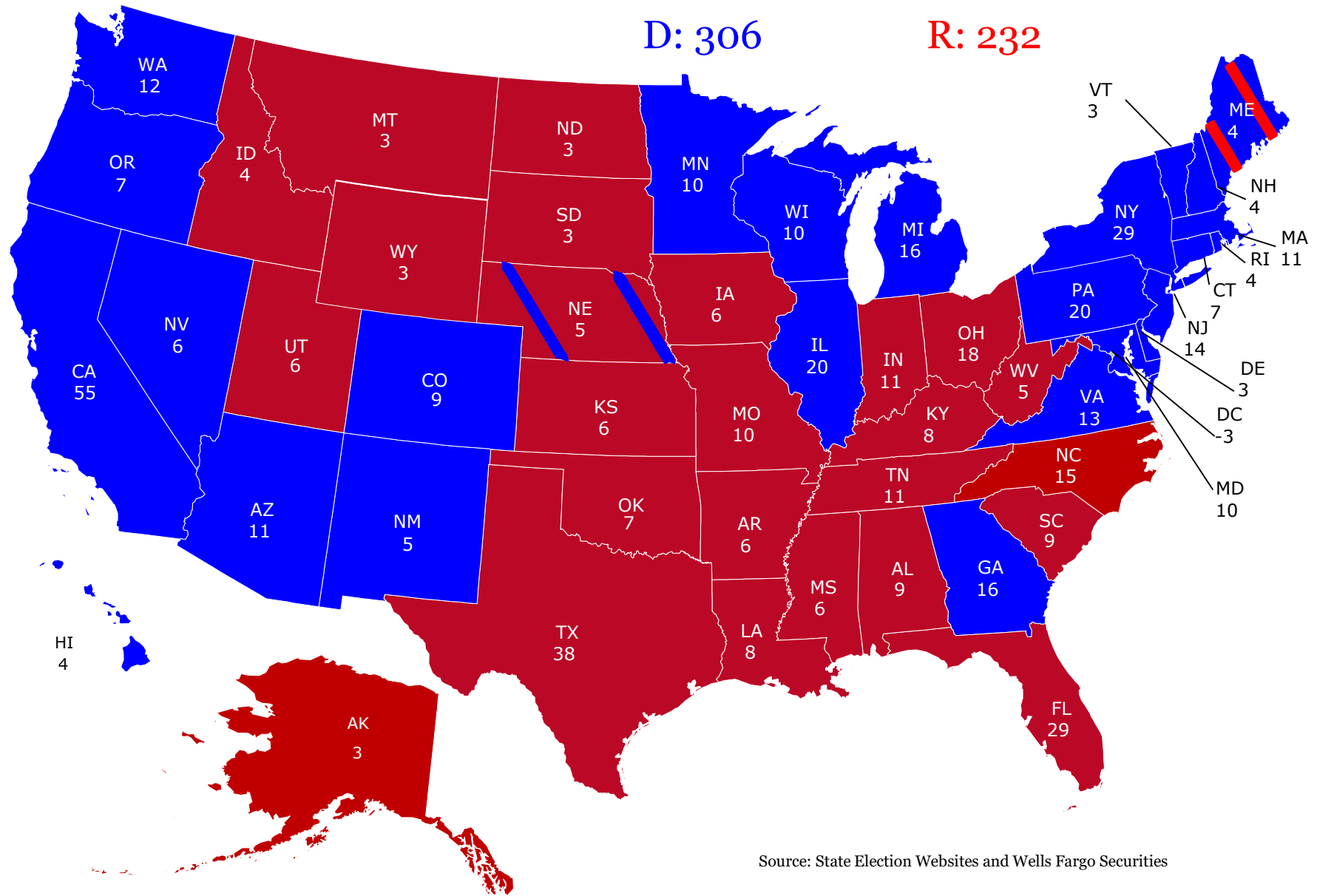


# 2016 Presidential Election



Source: Federal Election Commission and Wells Fargo Securities

# 2020 Presidential Election



Source: State Election Websites and Wells Fargo Securities

### 2020 Senate Races

117 <sup>th</sup> Congress	
Total Republicans	50
Total Democrats:	46?
Independents (Caucus w/ Dems)	2

Note: 50 seats are need for a majority (with Vice President casting a tie breaking vote) or 51 seats without the VP

- Democrats picked up two Senate seats in Arizona and Colorado, but lost one in Alabama.
- Republicans held seats in Montana, South Carolina, Maine, Alaska and North Carolina.
- The Democratic incumbent in Michigan held on in a tightly contested race.
- This puts the Senate at 50 Republicans, 46 Democrats and 2 independents who caucus with the Democrats.
- Final two Senate seats are both in Georgia, and will be decided on January 5, 2021.

Source: United States Senate, State Election Websites and Wells Fargo Securities

## Biden versus Trump: Fiscal Policy

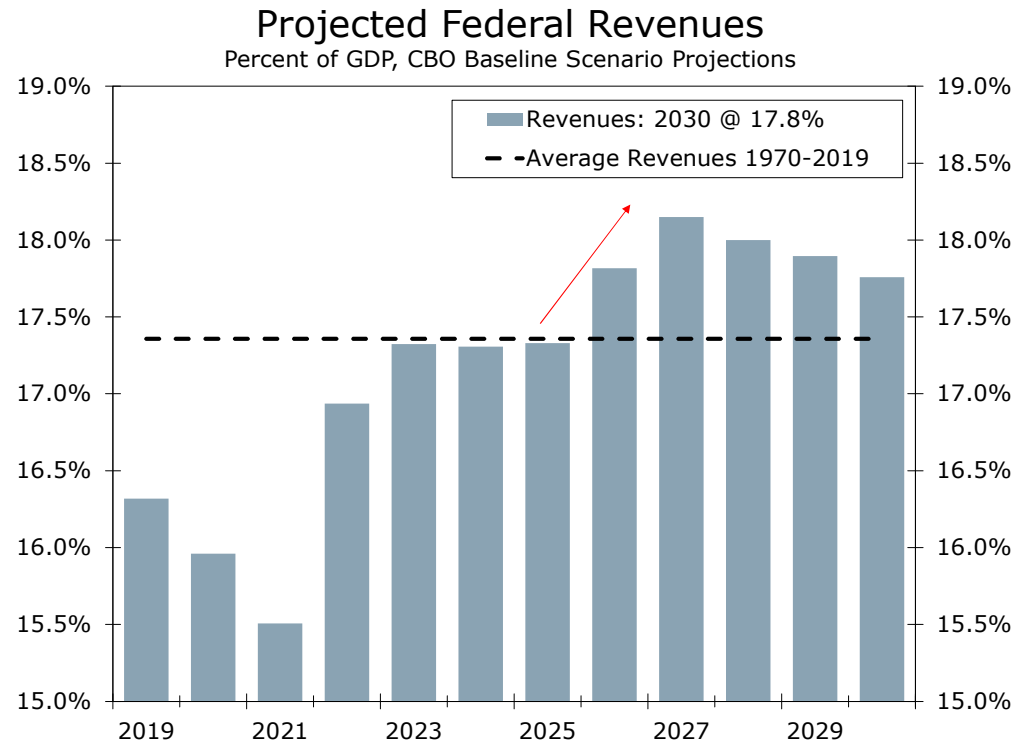
- In total, the Penn-Wharton Budget Model projects that Biden's platform would raise \$3.4 trillion in revenue while increasing spending by \$5.4 trillion over the next ten years.
- That increase in spending could be even larger, however, as this PWBM analysis does not include most of the items being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

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

Source: Candidates' websites and Wells Fargo Securities

## TCJA under Divided Government

How would divided government handle the looming TCJA expirations?

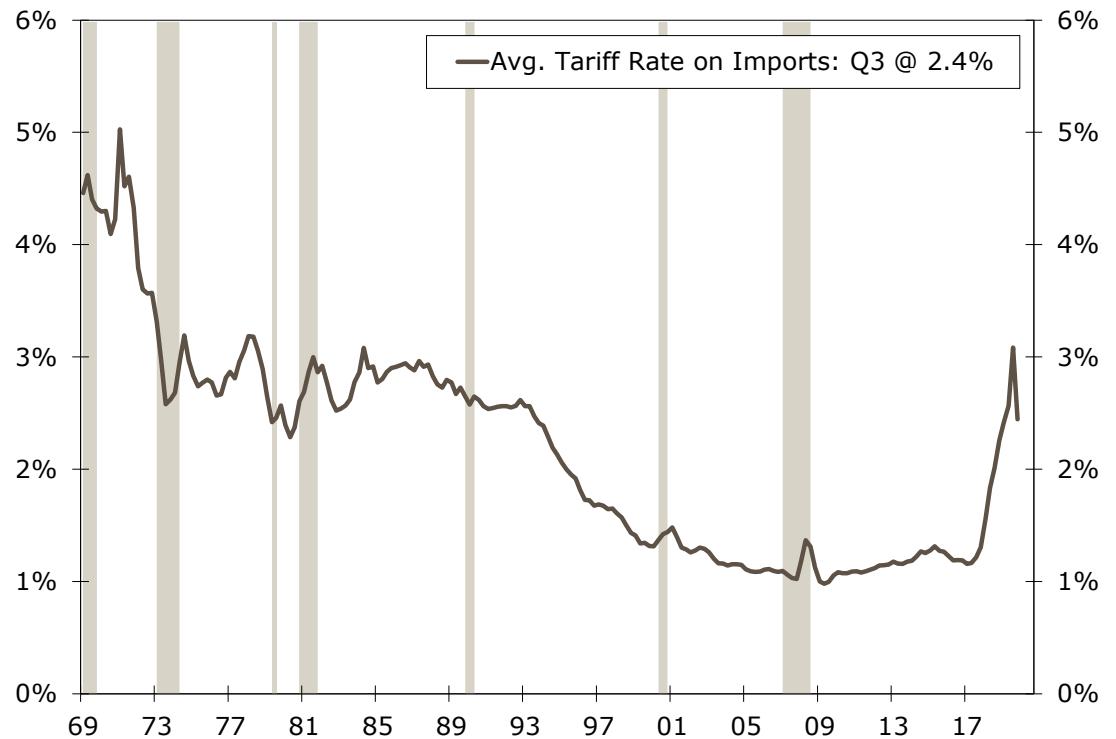


Source: Congressional Budget Office and Wells Fargo Securities

## President Biden and Tariffs

In the aggregate, average U.S. tariff rates are back to 1980s levels

### Average U.S. Tariff Rate on Imports



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

## Biden and a Divided Congress

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- What have Senate Republicans supported when it comes to COVID relief?
  - \$650 billion package proposed by Senate Republicans in mid-September received support from all but one Republican Senator
    - Roughly \$300 billion of that was unused money from prior COVID relief bills
  - Three additional months of \$300-per-week supplemental jobless benefits
  - \$105 billion for schools to reopen
  - \$258 billion for a second round of paycheck protection subsidies for small businesses
  - Lesser amounts for vaccine research and development, farmers, child care, etc.
- With President Biden and a Republican Senate, getting a COVID-relief bill through is still possible, but we believe it would have to be much smaller than the roughly \$2T bill that was being negotiated before the election by Speaker Pelosi and Treasury Secretary Mnuchin.
- Could something get done in the lame duck session of Congress? Perhaps. We suspect President Trump would be able to nudge some Senate Republicans towards a yes vote and/or a bigger package, whereas we doubt President Biden would enjoy such an advantage. But, the clock is ticking.

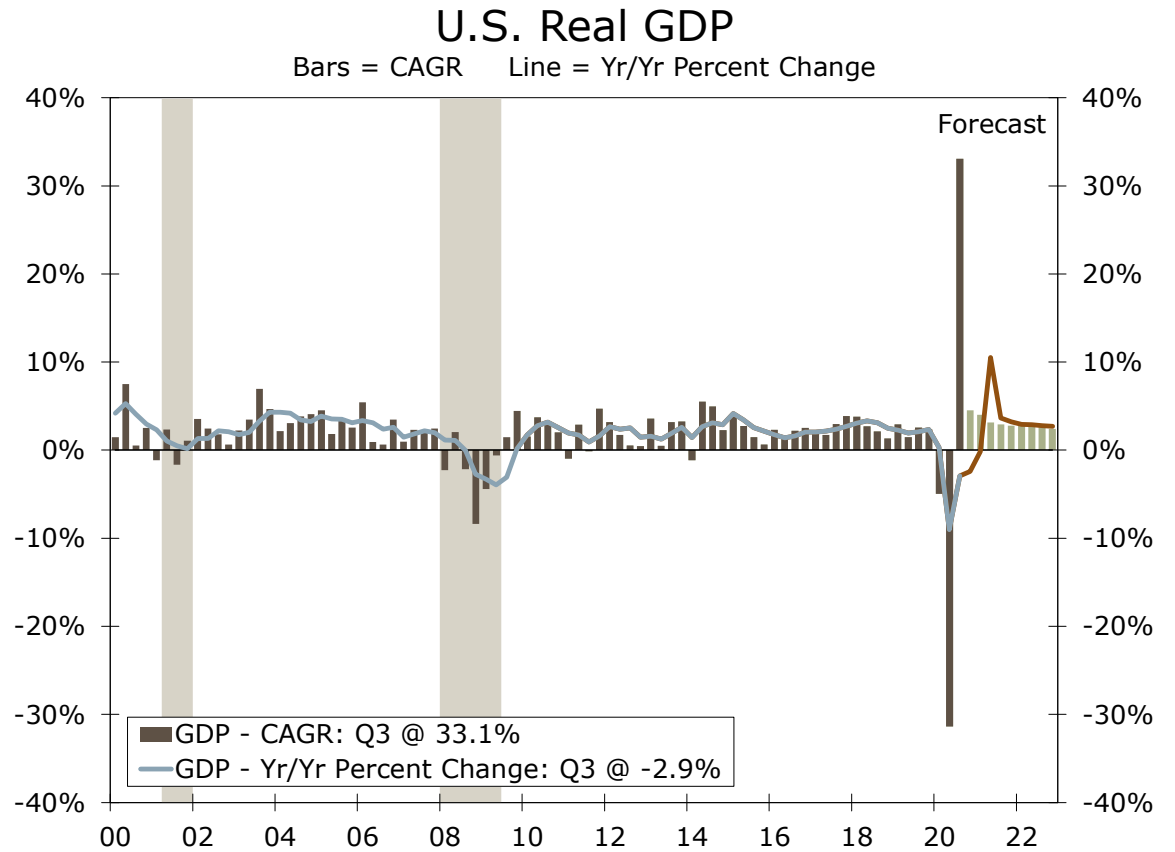


## U.S. Economic Outlook: Winter Is Coming

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# Steep, Sharp Recession

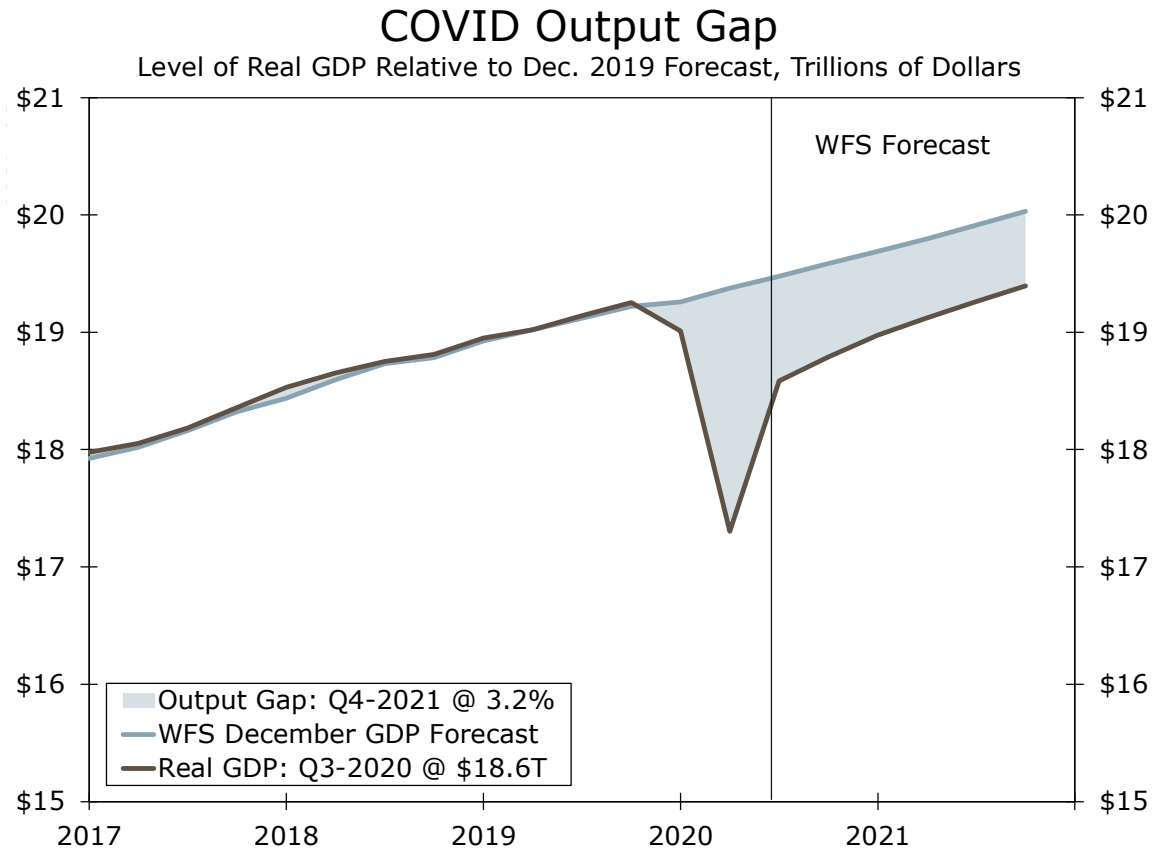
The peak-to-trough decline in real GDP was worse than the Great Recession



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

# Output Gap Forecast

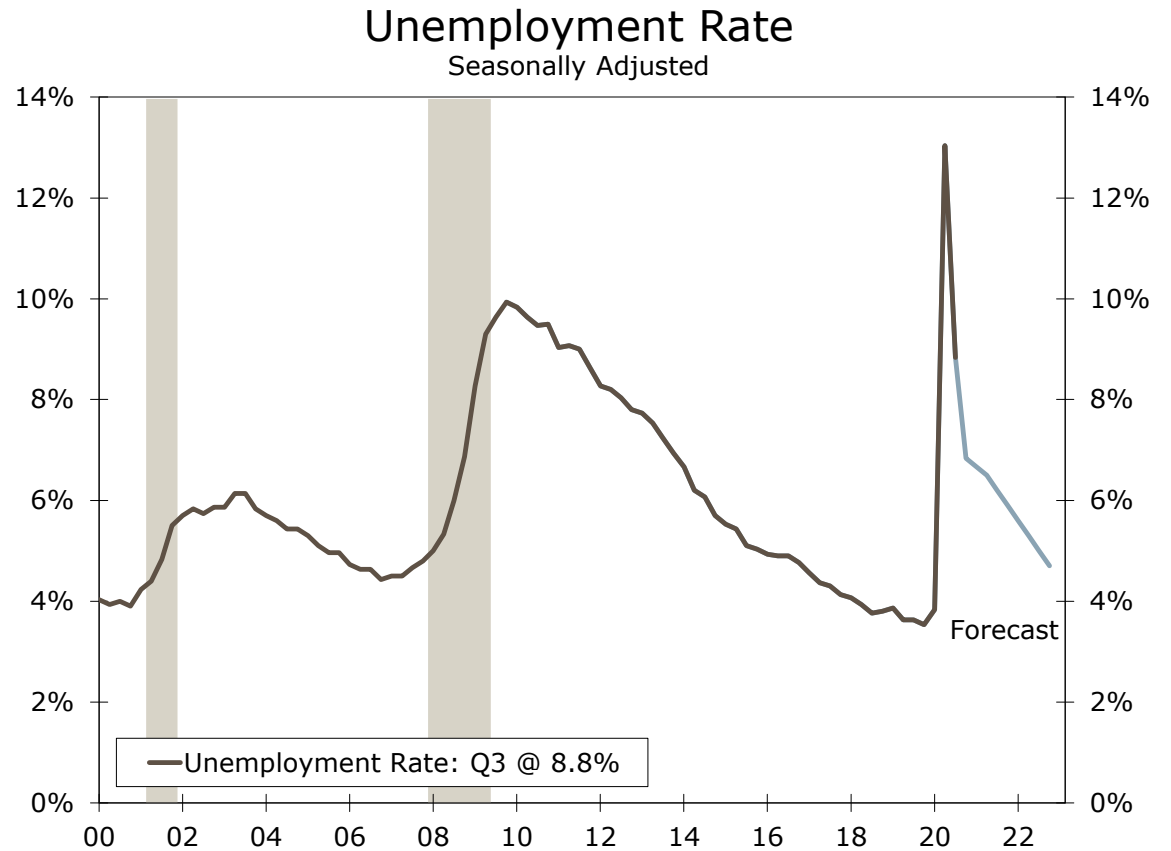
We expect a sizable output gap for the next few years—  
growth versus levels



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

# U.S. Unemployment Rate Forecast

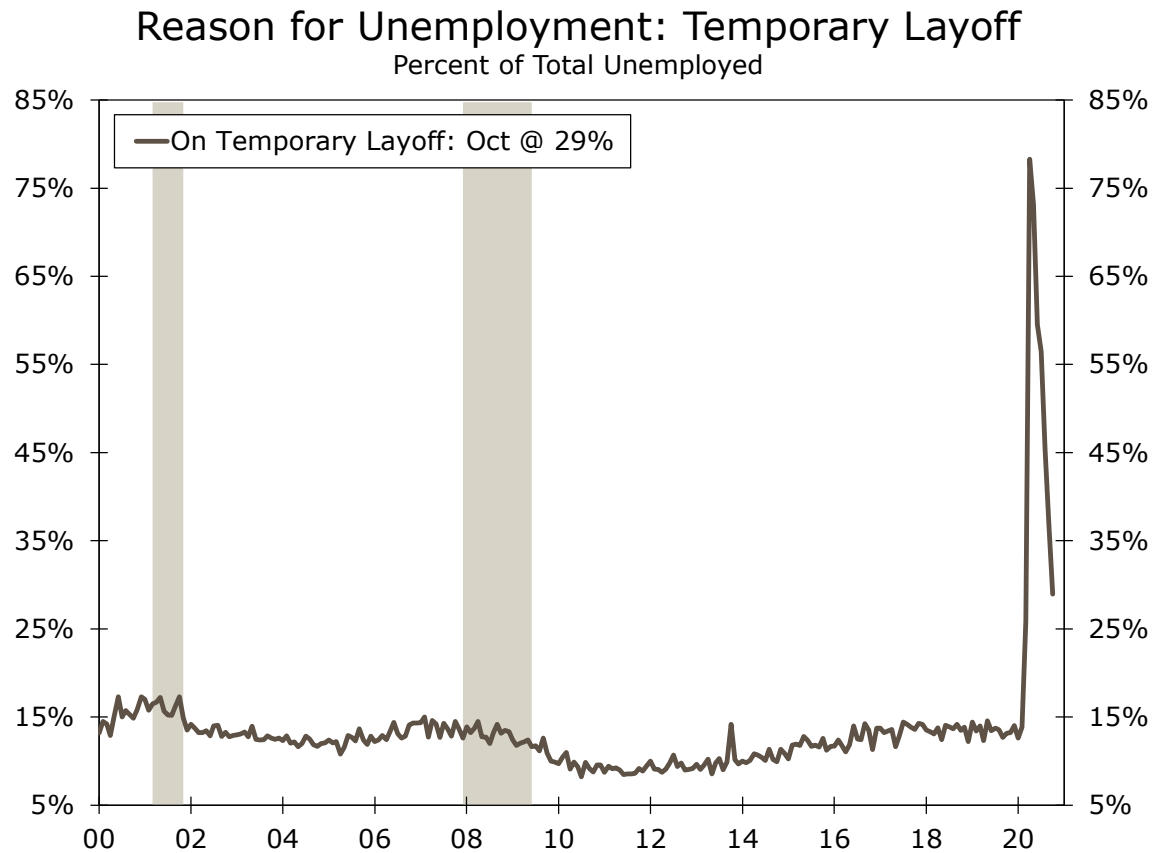
We expect the unemployment rate to very gradually decline from its current level of 6.9%



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

## Job Losses: Temporary or Permanent?

About 30% of unemployed workers still report that they are on a temporary layoff



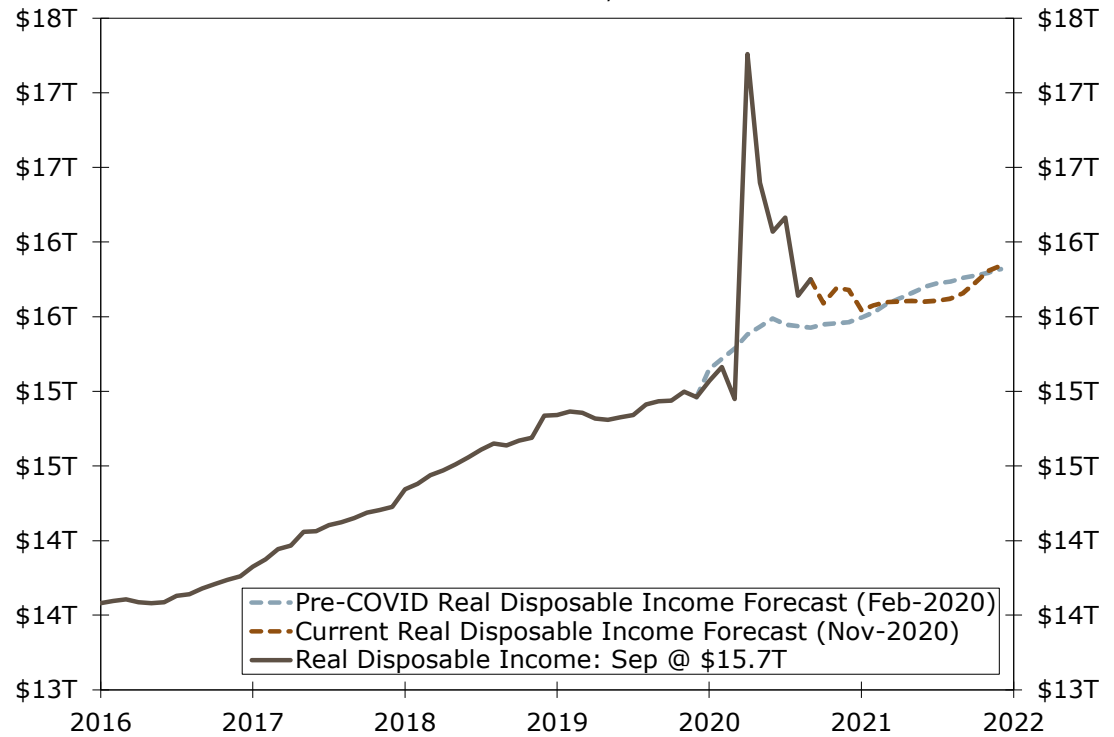
Source: U.S. Department of Labor and Wells Fargo Securities

# U.S. Real Disposable Personal Income

Another big COVID relief bill could fuel a second surge in real disposable income growth

## Real Disposable Personal Income Forecast

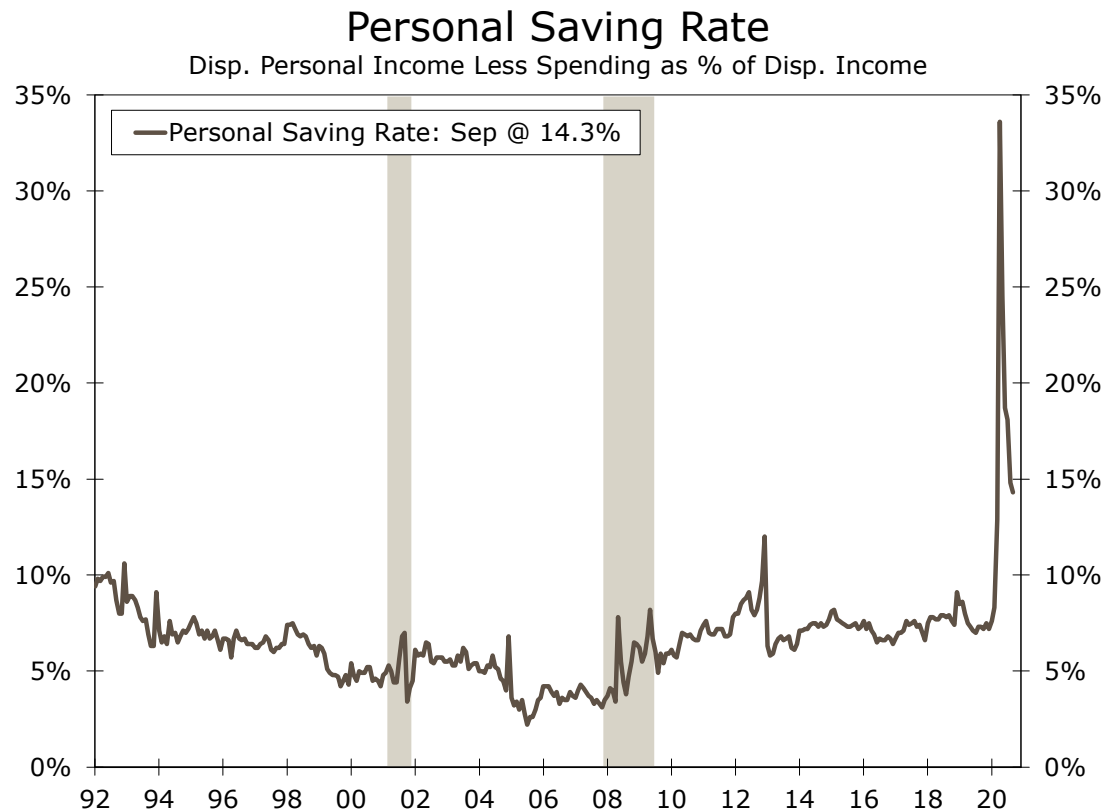
Trillions of USD, SAAR



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

# U.S. Personal Saving Rate

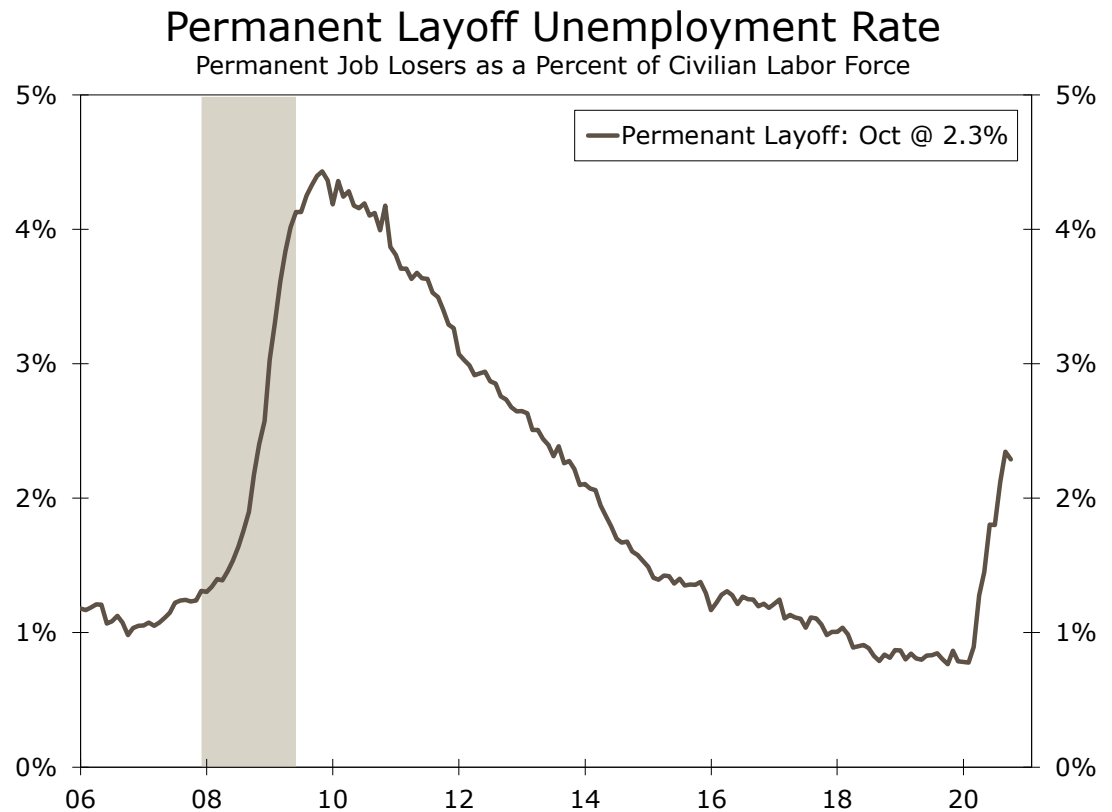
Saving rates remain elevated



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

## Permanent Layoffs Rising

The decline in the unemployment rate has been driven by temporary layoffs ending. Permanent layoffs are on the rise.

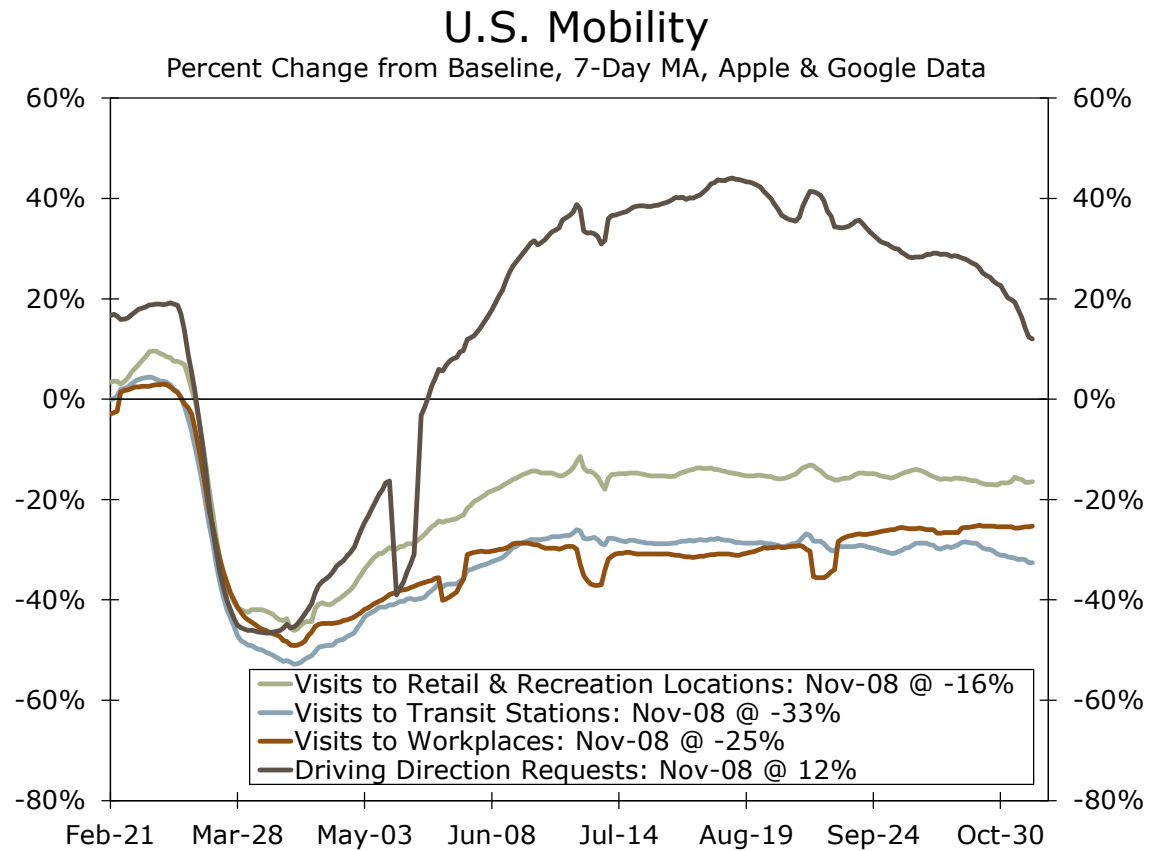


Source: U.S. Department of the Labor and Wells Fargo Securities



## U.S. Mobility Data

Mobility data suggest that the recovery has decelerated



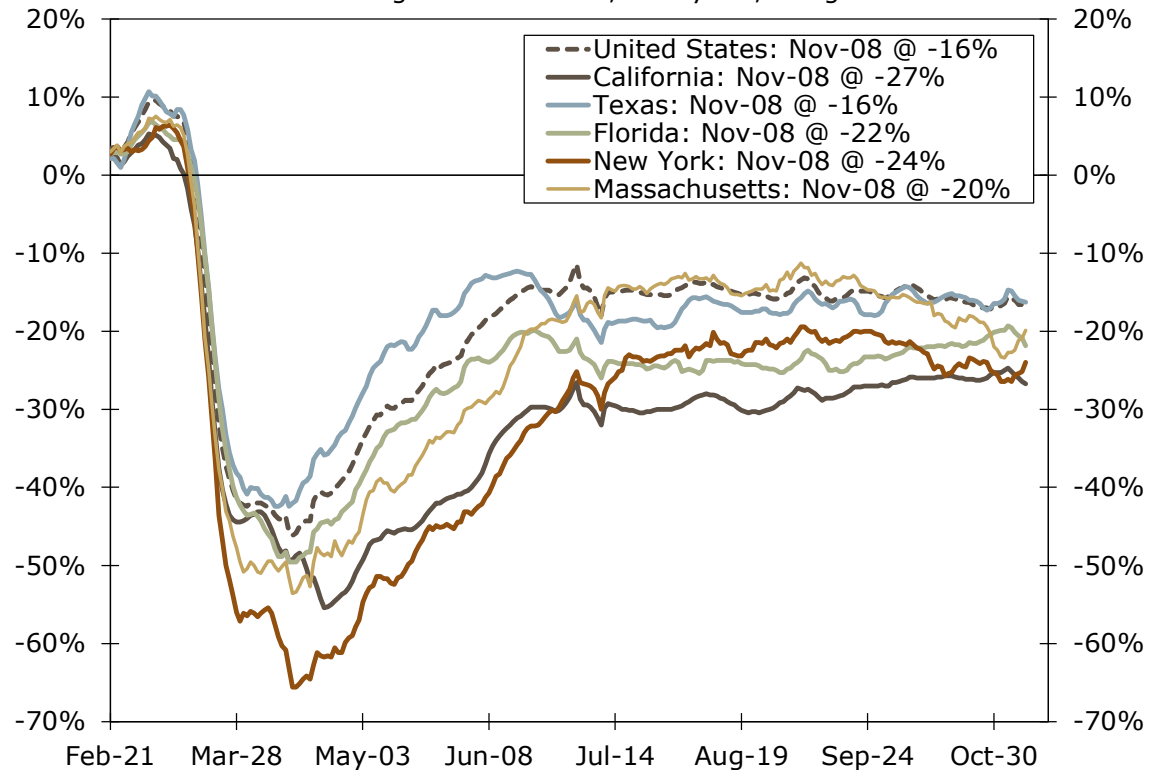
Source: Google, Apple and Wells Fargo Securities

## Retail and Recreation Mobility

The mobility gap between the northeast and the sunbelt has largely closed

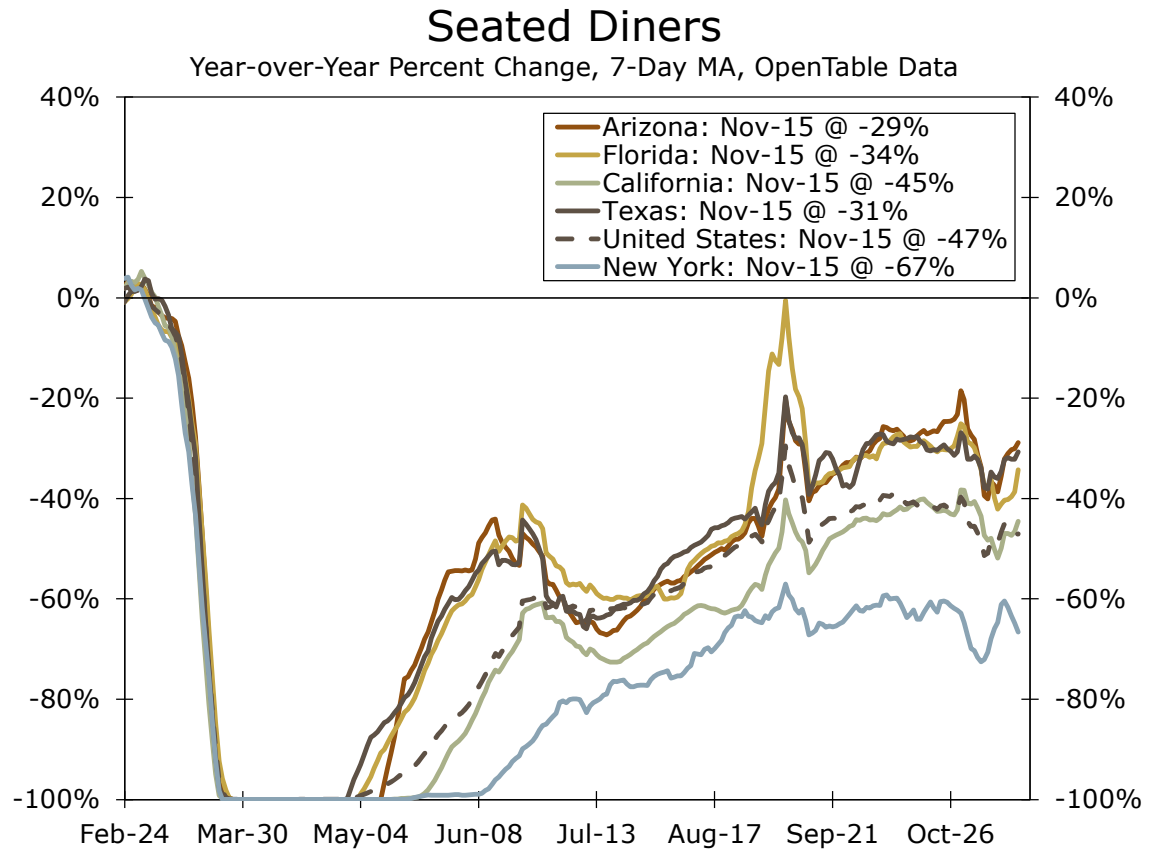
### Visits to Retail & Recreation Locations

Percent Change from Baseline, 7-Day MA, Google Data



Source: Google and Wells Fargo Securities

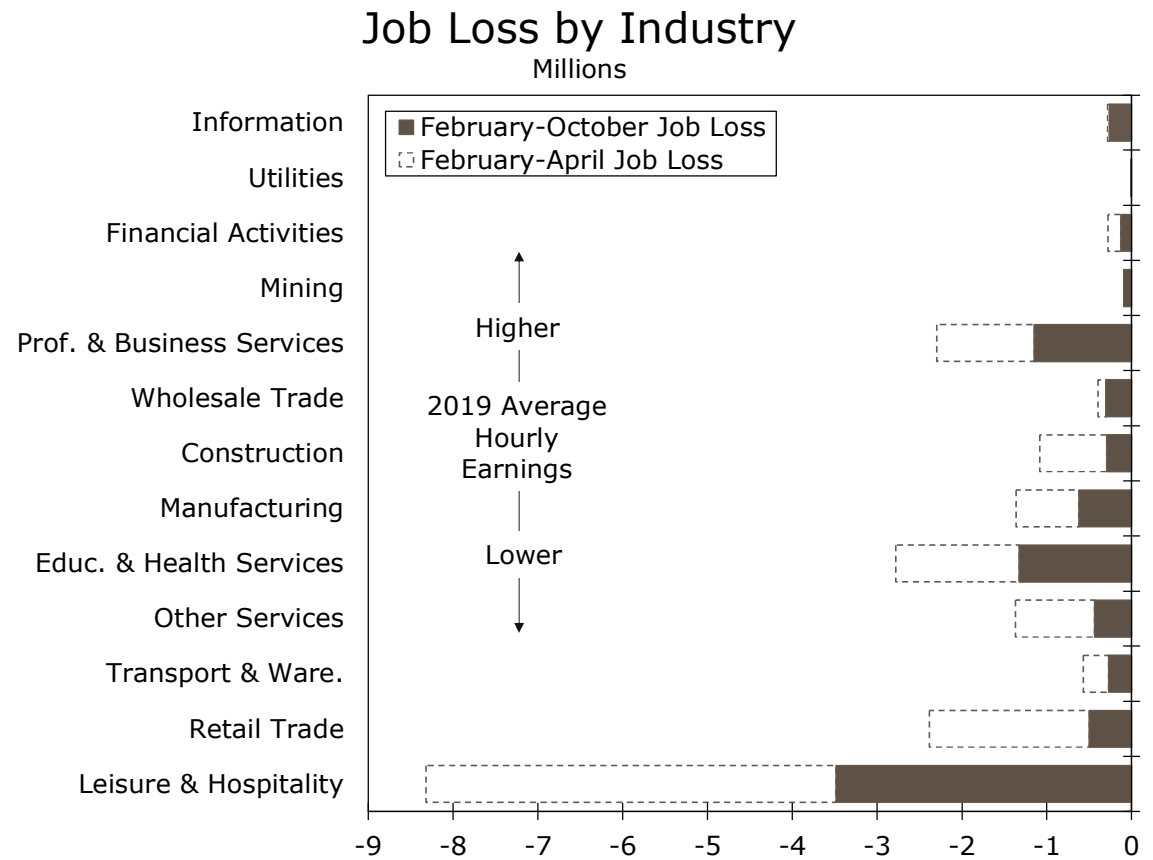
Restaurant activity has begun to reverse course



Source: OpenTable and Wells Fargo Securities

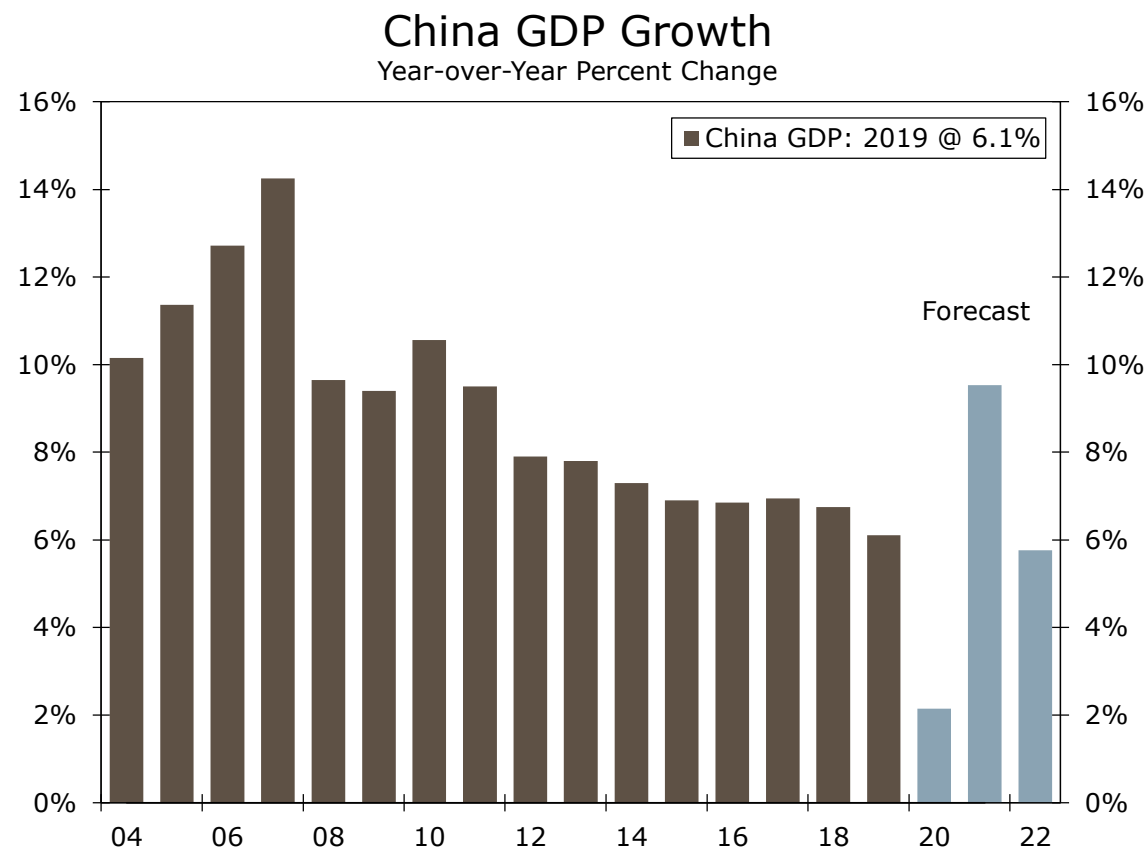
## Job Loss by Industry

Employment in industries like leisure & hospitality and retail is still lower by millions of jobs



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

China's economy appears likely to eke out a small gain in 2020

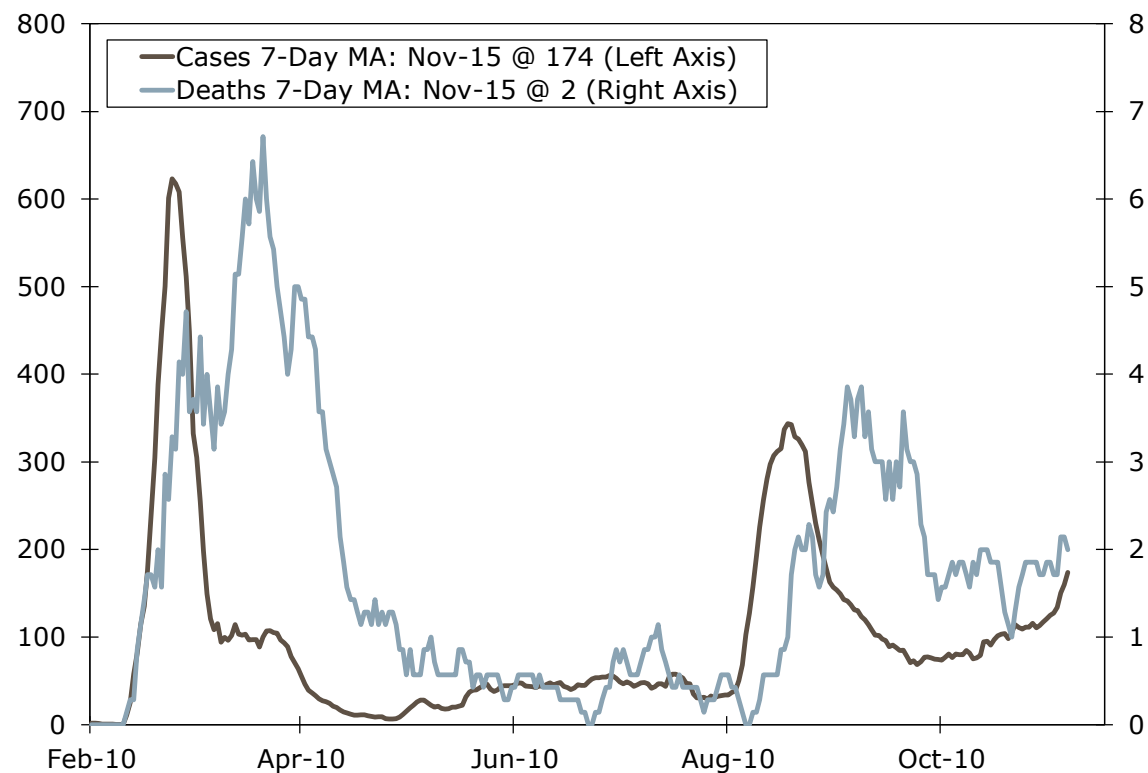


Source: International Monetary Fund and Wells Fargo Securities

## South Korea: COVID-19 Spread

COVID-19 is under control in most of Asia

### South Korea Covid-19 New Cases & Deaths

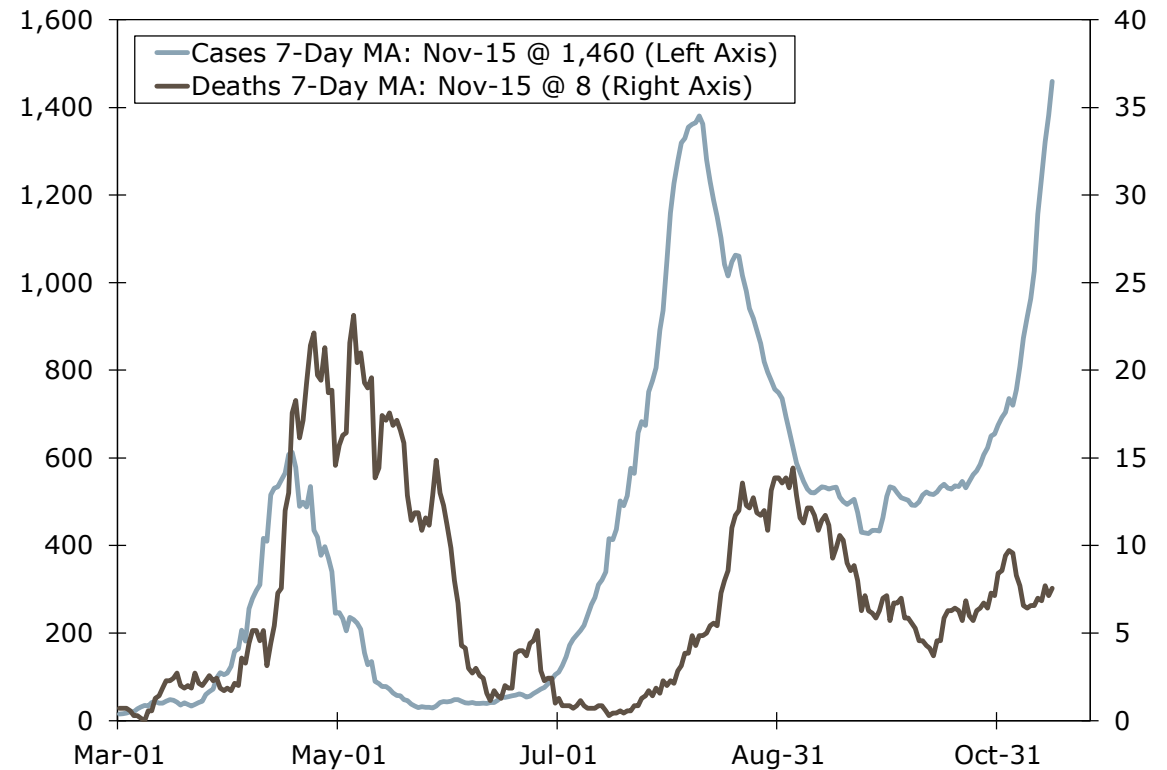


Source: Bloomberg LP and Wells Fargo Securities

## Japan: COVID-19 Spread

Even in dense countries like Japan, COVID deaths have been relatively low

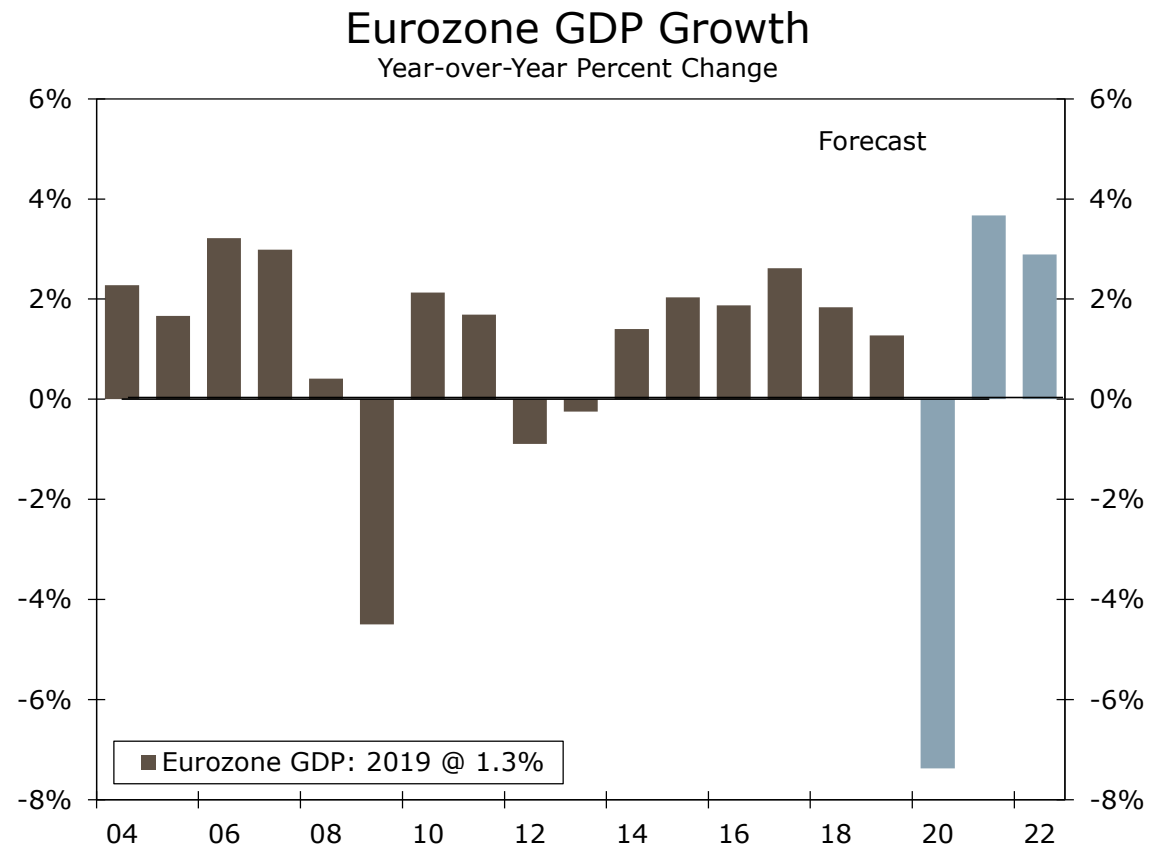
### Japan COVID-19 New Cases & Deaths



Source: Bloomberg LP and Wells Fargo Securities

## Eurozone Economy

We expect the Eurozone economy to contract about 7% in 2020, compared to 3.5% for the U.S. economy

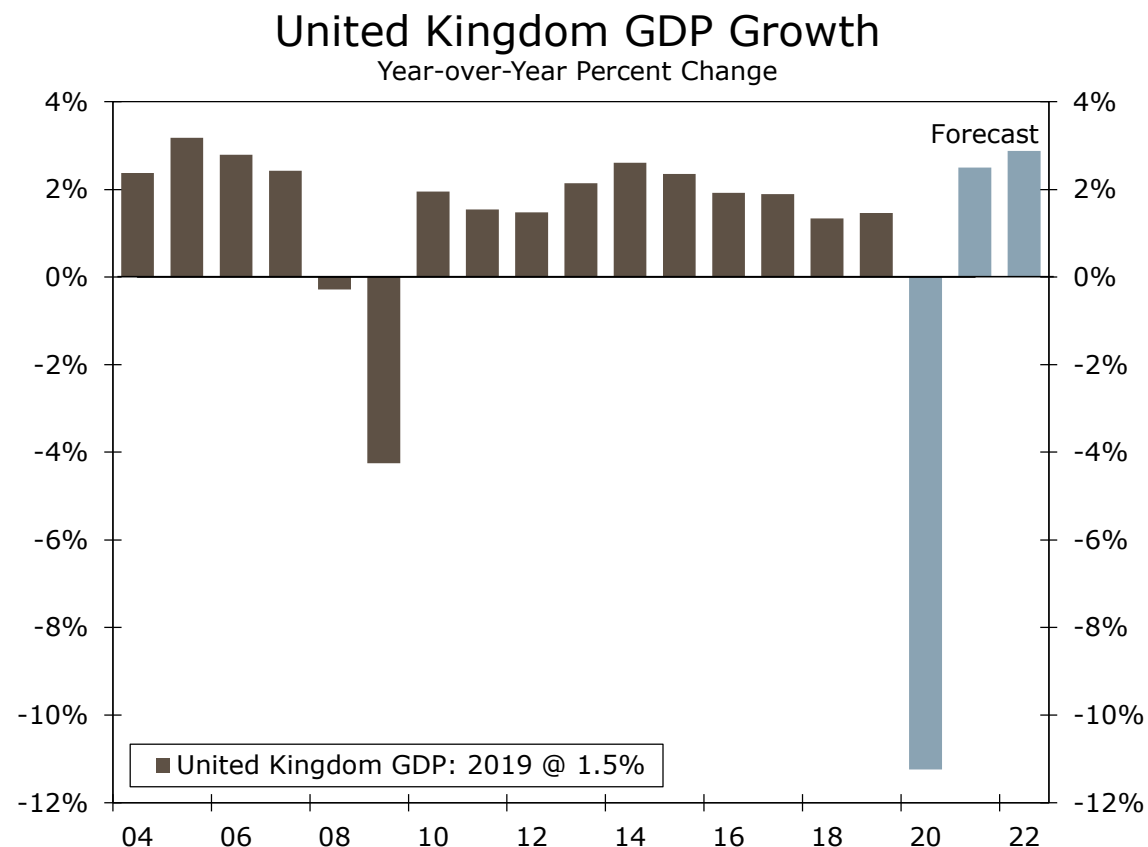


Source: International Monetary Fund and Wells Fargo Securities



## United Kingdom Economy

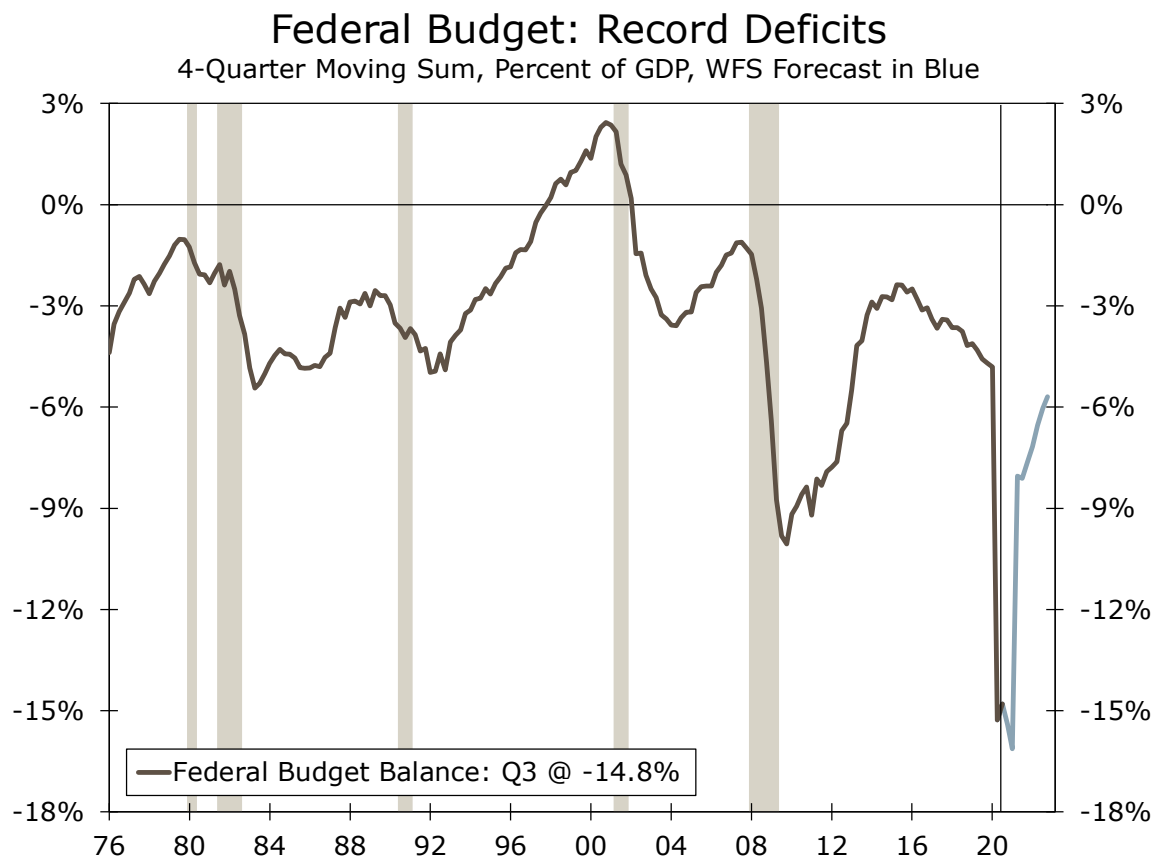
The situation is even more dire in the United Kingdom, where we anticipate an 11% contraction in the British economy in 2020



Source: International Monetary Fund and Wells Fargo Securities

## Exploding Budget Deficit in the U.S.

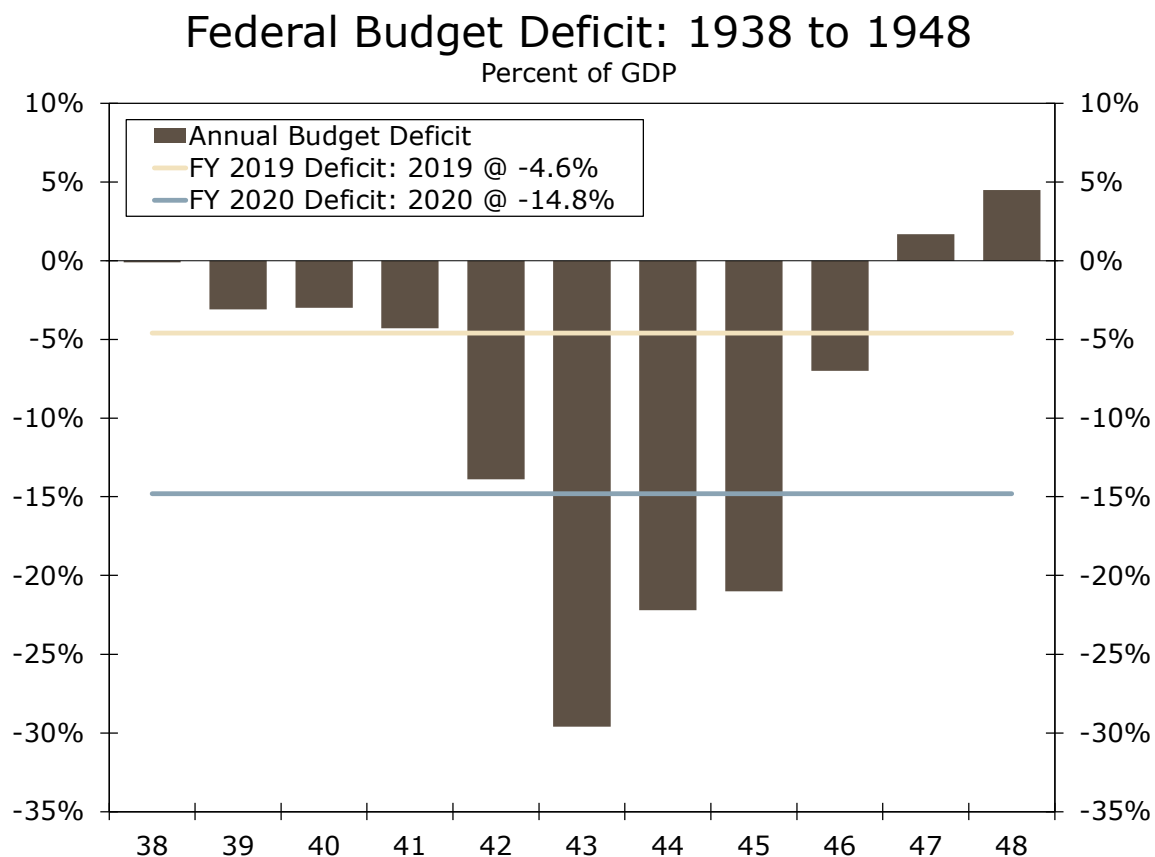
The United States ran the biggest federal budget deficit since World War II in FY 2020



Source: U.S. Department of the Treasury and Wells Fargo Securities

## Exploding Budget Deficit

The federal government ran even bigger budget deficits during World War II



Source: U.S. Department of the Treasury and Wells Fargo Securities

### What Else Can the Fed Really Do?

- Negative rates
- Yield curve control
- Increase the size of traditional asset purchases
- Increase the size of non-traditional asset purchases
- Make existing lending programs more generous
- Forward guidance through long-run rate projections
- Explicitly backstop fiscal policy

## Federal Reserve Policy Actions

### Federal Reserve Programs

Description		Projected Capacity (\$B)	Treasury Funding (\$B)	Take up to Date (\$B)*
<b>Traditional QE</b>				<b>\$ 2,886</b>
Treasuries	Outright purchases of Treasury securities	Unlimited	N/A	\$ 2,053
Agency MBS	Outright purchases of agency MBS	Unlimited	N/A	\$ 824
Agency CMBS	Outright purchases of agency CMBS	Unlimited	N/A	\$ 9
<b>Emergency Lending Programs</b>		<b>\$ 2,820</b>	<b>\$ 215</b>	<b>\$ 89</b>
Commercial Paper Funding Facility (CPFF)	Purchase commercial paper from eligible issuers	\$ 100	\$ 10	\$ 0
Primary Dealer Credit Facility (PDCF)	"Discount window" to primary dealers	Unlimited	\$ -	\$ 0
Money Market Mutual Fund Liquidity Facility (MMLF)	Lending facility that helps money market funds meet redemptions	\$ 100	\$ 10	\$ 4
Corporate Credit Facilities (PMCCF & SMCCF)	Purchase corporate bonds from eligible issuers in the primary and secondary market	\$ 750	\$ 75	\$ 14
Term Asset-backed Securities Loan Facility (TALF)	Lending facility that takes ABS as collateral	\$ 100	\$ 10	\$ 4
Main Street New Loan Facility (MSNLF) Main Street Expanded Loan Facility (MSELF)	Provide loans to small and mid-sized business	\$ 600	\$ 75	\$ 5
Municipal Liquidity Facility (MLF)	Purchase short-term municipal notes from eligible issuers	\$ 500	\$ 35	\$ 2
Paycheck Protection Liquidity Facility (PPPLF)	Lending facility that takes PPP loans as collateral	\$ 670	\$ -	\$ 60
<b>Fed to Other Central Banks</b>				<b>\$ 9</b>
FX Swap Lines	Unsecured lending of dollars to foreign central banks	Unlimited	N/A	\$ 8
FIMA Repo Facility	Secured lending of dollars to foreign central banks	Unlimited	N/A	\$ 1

\*For traditional QE, purchases since Fed announcement. For lending programs, outstanding as of November 12, 2020

Source: Federal Reserve Board and Wells Fargo Securities

# U.S. Forecast

Wells Fargo Securities U.S. Economic Forecast																				
	Actual								Forecast								Actual			Forecas
	2019				2020				2021				2022				2019	2020	2021	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product <sup>1</sup>	2.9	1.5	2.6	2.4	-5.0	-31.4	33.1	4.5	4.0	3.1	2.9	2.8	2.8	2.9	2.6	2.4	2.2	-3.5	4.2	
Personal Consumption	1.8	3.7	2.7	1.6	-6.9	-33.2	40.7	4.9	3.5	3.3	3.1	2.9	2.7	2.7	2.5	2.2	2.4	-3.8	4.7	
Business Fixed Investment	4.2	0.0	1.9	-0.3	-6.7	-27.2	20.3	9.0	3.7	4.2	4.9	4.9	5.4	5.2	5.2	5.0	2.9	-4.5	4.6	
Equipment	2.0	-3.8	-1.7	-1.7	-15.2	-35.9	70.1	12.4	5.0	6.0	6.2	6.8	7.1	6.4	6.1	5.8	2.1	-5.5	9.8	
Intellectual Property Products	4.5	4.1	5.3	4.6	2.4	-11.4	-1.0	1.6	3.0	4.8	6.8	6.3	6.3	5.5	5.6	5.1	6.4	0.0	2.3	
Structures	8.2	1.6	3.6	-5.3	-3.7	-33.6	-14.6	4.5	1.5	-1.5	-2.2	-3.4	-1.4	1.3	1.9	2.1	-0.6	-10.1	-4.2	
Residential Investment	-1.7	-2.1	4.6	5.8	19.0	-35.6	59.3	17.0	5.5	8.0	7.5	7.0	6.5	6.5	6.0	6.0	-1.7	4.7	10.5	
Government Purchases	2.5	5.0	2.1	2.4	1.3	2.5	-4.5	-1.7	-0.2	-0.6	-0.4	0.2	0.2	0.5	0.5	0.8	2.3	1.1	-0.9	
Net Exports <sup>2</sup>	0.6	-0.8	0.0	1.5	1.1	0.6	-3.1	-0.9	0.2	0.2	0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	0.1	-0.7	
Inventories <sup>2</sup>	0.2	-1.0	-0.1	-0.8	-1.3	-3.5	6.6	1.3	0.7	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	-0.7	0.9	
Nonfarm Payroll Change <sup>3</sup>	139	159	203	210	-303	-4427	1309	563	450	328	283	270	257	243	227	213	178	-715	333	
Unemployment Rate	3.9	3.6	3.6	3.5	3.8	13.0	8.8	6.8	6.7	6.5	6.2	5.9	5.6	5.3	5.0	4.7	3.7	8.1	6.3	
PCE Deflator <sup>4</sup>	1.4	1.5	1.5	1.5	1.7	0.6	1.2	1.3	1.3	2.1	1.6	1.6	1.7	1.7	1.8	1.8	1.5	1.2	1.7	
Quarter-End Interest Rates <sup>5</sup>																				
Federal Funds Target Rate	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	2.25	0.25	0.25	
Secured Overnight Financing Rate <sup>6</sup>	2.43	2.43	2.28	1.67	1.23	0.05	0.09	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	2.20	0.37	0.10	
3 Month LIBOR	2.60	2.32	2.09	1.91	1.45	0.30	0.23	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	2.33	0.56	0.25	
Prime Rate	5.50	5.50	5.00	4.75	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	5.25	3.25	3.25	
Conventional Mortgage Rate	4.28	3.80	3.61	3.72	3.45	3.16	2.89	2.80	2.80	2.85	2.90	3.00	3.05	3.10	3.15	3.20	3.94	3.08	2.89	
3 Month Bill	2.40	2.12	1.88	1.55	0.11	0.16	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	2.11	0.12	0.10	
6 Month Bill	2.44	2.09	1.83	1.60	0.15	0.18	0.11	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	2.11	0.14	0.10	
1 Year Bill	2.40	1.92	1.75	1.59	0.17	0.16	0.12	0.15	0.15	0.15	0.15	0.15	0.20	0.20	0.25	0.25	2.05	0.15	0.15	
2 Year Note	2.27	1.75	1.63	1.58	0.23	0.16	0.13	0.15	0.20	0.20	0.20	0.25	0.25	0.30	0.35	0.45	1.97	0.17	0.21	
5 Year Note	2.23	1.76	1.55	1.69	0.37	0.29	0.28	0.35	0.40	0.45	0.55	0.65	0.70	0.75	0.85	0.95	1.95	0.32	0.51	
10 Year Note	2.41	2.00	1.68	1.92	0.70	0.66	0.69	0.85	1.00	1.10	1.20	1.30	1.35	1.40	1.45	1.50	2.14	0.73	1.15	
30 Year Bond	2.81	2.52	2.12	2.39	1.35	1.41	1.46	1.60	1.75	1.90	2.05	2.15	2.20	2.20	2.25	2.30	2.58	1.46	1.96	

Forecast as of: November 10, 2020

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter

<sup>2</sup> Percentage Point Contribution to GDP

<sup>3</sup> Average Monthly Change

<sup>4</sup> Year-over-Year Percentage Change

<sup>5</sup> Annual Numbers Represent Averages

<sup>6</sup> Quarterly Average of Daily Close

Source: U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve Board and Wells Fargo Securities

## International Forecast

### Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP				CPI			
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Global (PPP Weights)	2.8%	-4.0%	5.6%	3.5%	3.5%	3.2%	3.1%	3.3%
Advanced Economies <sup>1</sup>	1.7%	-5.2%	3.9%	3.0%	1.4%	0.8%	1.3%	1.6%
United States	2.2%	-3.5%	4.2%	2.8%	1.8%	1.2%	1.9%	2.0%
Eurozone	1.3%	-7.4%	3.7%	2.9%	1.2%	0.3%	0.7%	1.1%
United Kingdom	1.5%	-11.2%	2.5%	2.9%	1.8%	0.9%	1.4%	1.6%
Japan	0.7%	-5.8%	2.4%	2.0%	0.5%	0.1%	0.1%	0.6%
Canada	1.7%	-5.6%	4.2%	2.8%	1.9%	0.6%	1.7%	2.0%
Switzerland	1.2%	-4.3%	2.6%	1.8%	0.4%	-0.7%	0.1%	0.5%
Australia	1.8%	-3.6%	2.7%	3.0%	1.6%	0.7%	1.6%	1.8%
New Zealand	2.2%	-5.2%	5.3%	3.3%	1.6%	1.4%	1.6%	1.8%
Sweden	1.3%	-4.0%	3.6%	3.2%	1.6%	0.6%	1.2%	1.4%
Norway	1.2%	-3.8%	3.6%	2.5%	2.2%	1.4%	2.3%	2.0%
Developing Economies <sup>1</sup>	3.7%	-3.0%	7.0%	4.0%	5.1%	5.0%	4.4%	4.6%
China	6.1%	2.2%	9.5%	5.8%	2.9%	2.8%	2.0%	2.3%
India	4.2%	-9.0%	9.9%	5.8%	4.8%	6.3%	4.4%	4.6%
Mexico	-0.3%	-9.2%	3.3%	2.8%	3.6%	3.5%	3.8%	3.5%
Brazil	1.1%	-5.7%	3.8%	2.7%	3.7%	2.6%	3.0%	3.4%

Forecast as of: November 10, 2020

<sup>1</sup>Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Securities

# Wells Fargo Securities Economics Group

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