



2021 Economic Outlook

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Agenda

- 2020 Predictions
- 2020 Tour of Pandemic
- Perspectives on Innovation, Biden Agenda, and Polarization
- 2021 Outlook



2020 predictions: the exam was not graded because the forecast moved online

- S&P 500: 0% (up and then down) **(+16.3%)**
- Real GDP growth: 1.7% **(est. -3.5%)**
- Unemployment: 3.8% at year end **(6.7%)**
- Labor Force Participation: Stable **(-2%)**
- Wage growth: 3.5% **(+3.8% earnings)**
- Inflation: 2.5% **(+1.4%)**
- US\$: (Trade weighted) slightly weaker **(-3%)**



My 2020 forecast risks

- The election outlook will play an increasingly large role on business and consumer expectations.
 - Trump or Bloomberg will be seen as business friendly
 - Biden more neutral
 - Other Dems will spook markets
- The combination of tight labor market and tariffs may create price pressures that put the Fed in a bind
- The usual geopolitical wildcards



2020 What keeps me up at night

- Global climate. Not an expert. Science can be wrong. But pollution was free for too long
- Globally coordinated QE as an intergenerational Ponzi scheme
- Large deficit and debt/GDP for developed sovereigns with so many unmet needs
- Disruption of the post WWII international order
- Erosion of trust in institutions and leaders
- Erosion of incentives to lead public institutions





The Year Ahead



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What fueled pre-pandemic expansion?

- Easy money...worldwide
- Low unemployment, growing participation
- Light touch regulation
- Impact of tax cuts (for some)
- High levels of household wealth and consumer confidence
- No sign of overheating



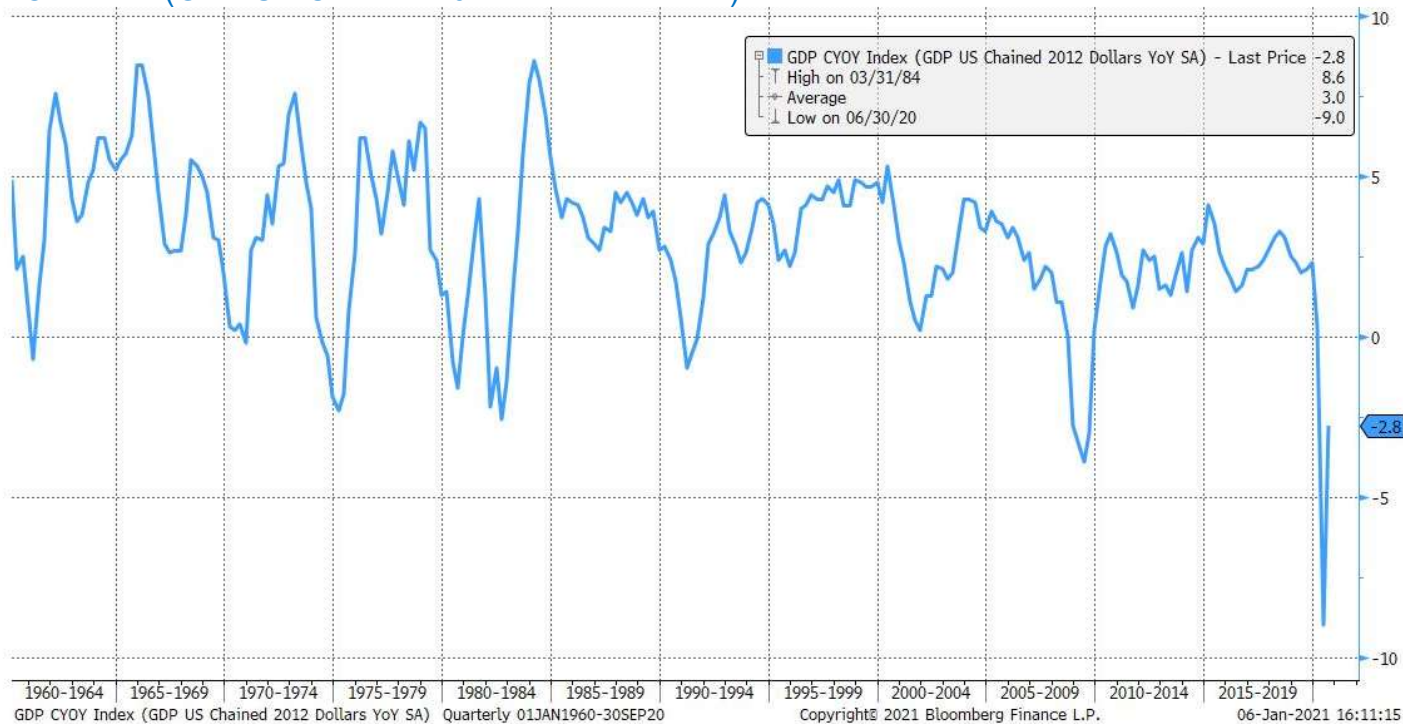
What happened to all that?

- Last year's final question from the back of the audience still haunts me...“How would a global pandemic impact the economic outlook?”
- I think all of us on the panel collectively threw up our hands as it was hard to anticipate
- Let's take a tour of what the economy looks like in a global pandemic...



Real GDP growth: steady no more

GDP CYOY Index (GDP US Chained 2012 Dollars YoY SA)



Bloomberg

Unemployment rate: glass half full

USURTOT Index (U-3 US Unemployment Rate Total in Labor Force Seasonally Adjusted)

Bloomberg

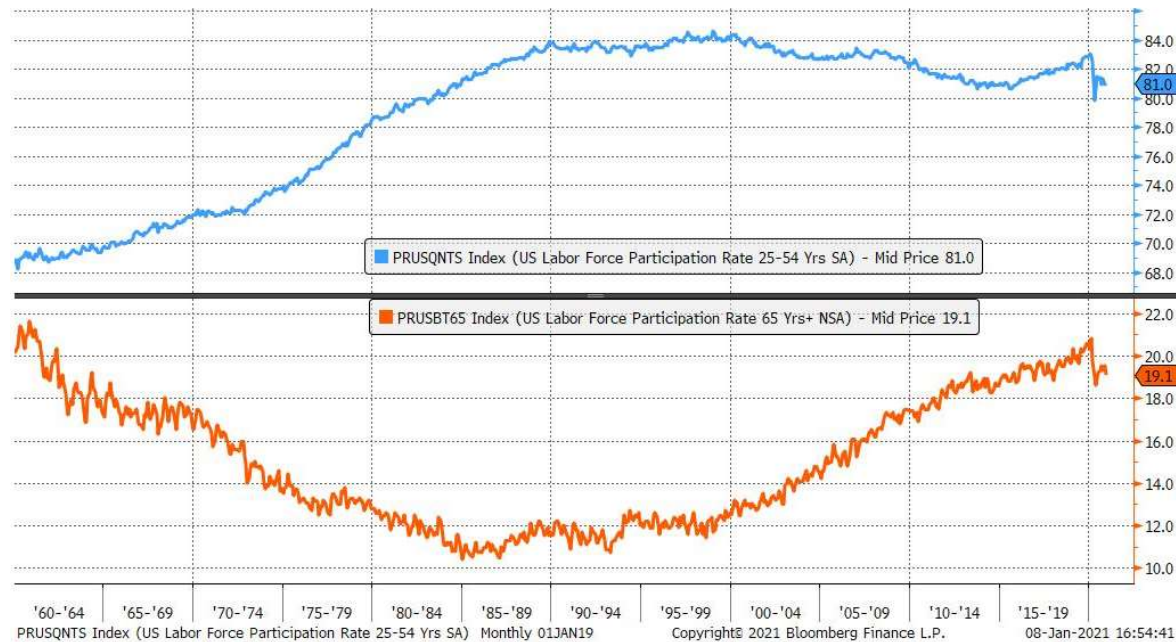


Labor force participation: half empty

PRUSQNTS Index (US Labor Force Participation Rate 25–54 Yrs SA)

PRUSBT65 Index (US Labor Force Participation Rate 65 Yrs+ NSA)

Bloomberg



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Factors shaping labor market outcomes

- The shortfall in employment is greater than the unemployment rate suggests due to 2% reduction in labor force participation.
- Getting back to full employment from where we are today will be difficult for several reasons:
 - Pandemic not over
 - Incentives to work fall when we increase support
 - Many former employers are gone!



CPI: the calm before the storm?

CPI YOY Index (US CPI Urban Consumers YoY NSA)

CPI XYOY Index (US CPI Urban Consumers Less Food & Energy YoY NSA)

Bloomberg



Factors shaping inflation

- Expect demand for goods and services to ramp up as pandemic fears ebb
- Pent up demand and many households have excess savings from pandemic life
- Demand for certain goods and services will outstrip supply which was gutted in the pandemic
- Commodities could spike, especially energy



3M v 10Y: C'mon, man! How to retire??

USGG10YR Index (US Generic Govt 10-Year Yield)

USGG3M Index (US Generic Govt 3-Month Yield)



U.S. and global equity: America's decade

SP Index (S&P 500 Index)
MXWO (MSCI World Index)

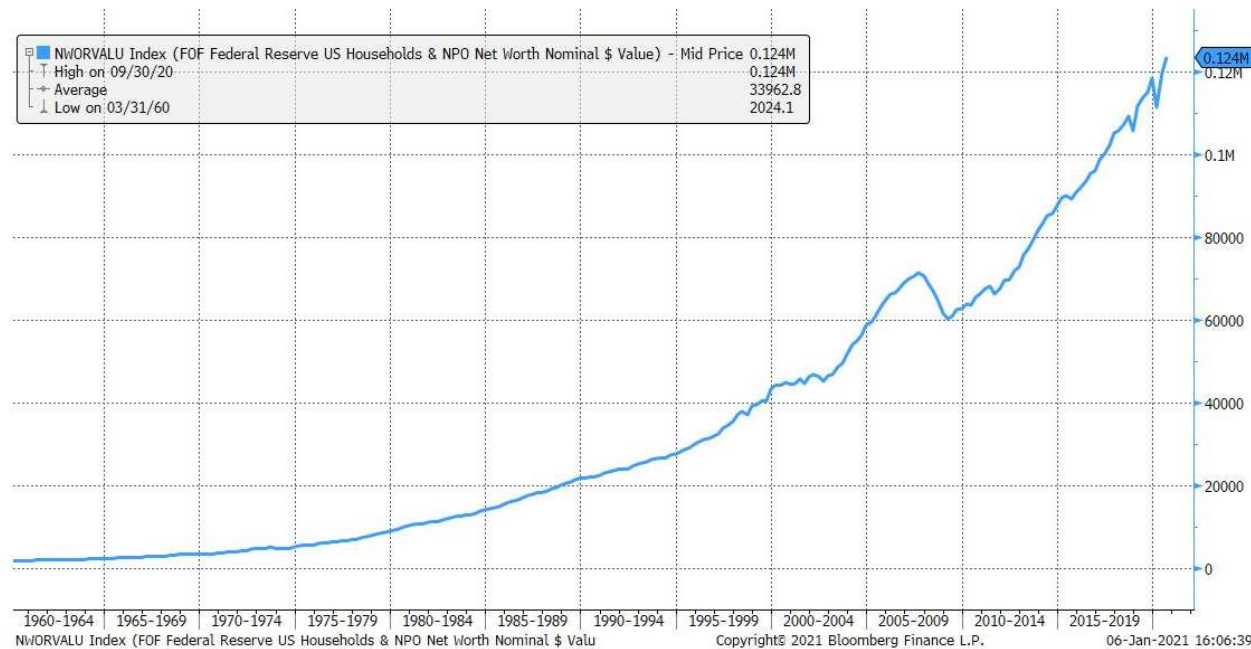
Bloomberg



Household net worth: full recovery plus

Bloomberg

NWORVALU Index (FOF Federal Reserve US Households & NPO Net Worth Nominal)

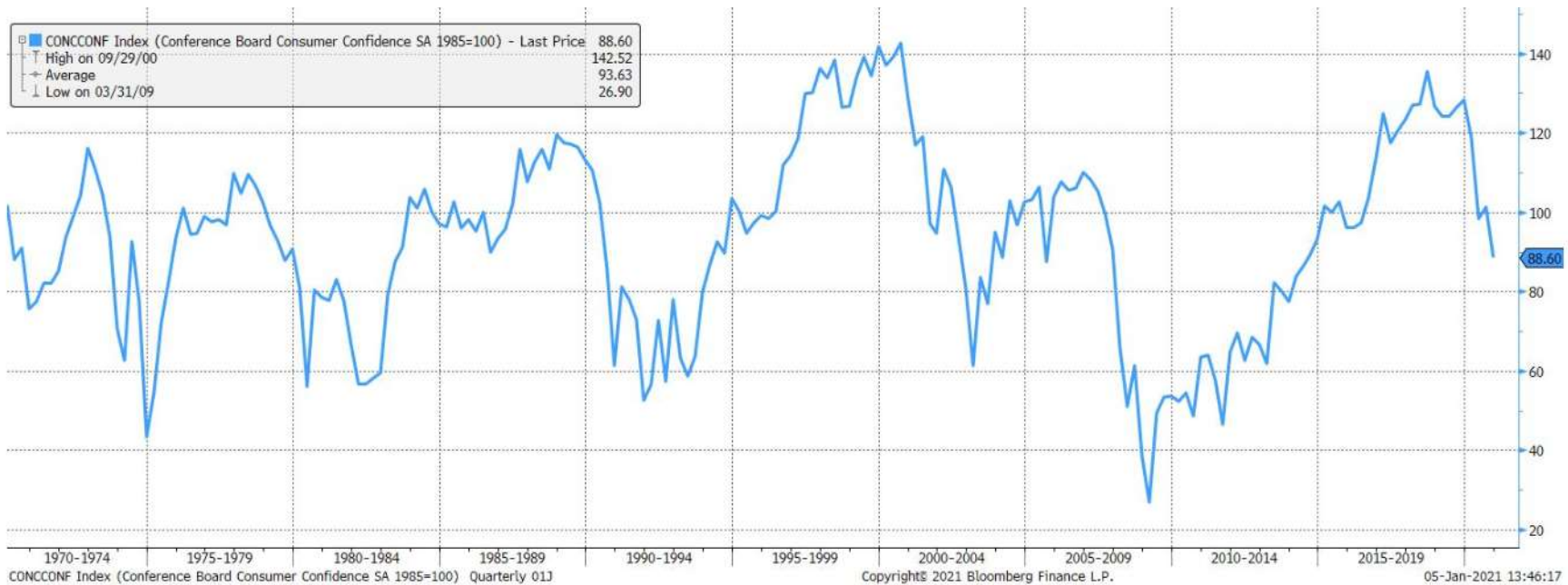


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Consumer confidence: trapped in basement

CONCCONF (Conference Board Consumer Confidence SA 1985 = 100)

Bloomberg



Whither confidence?

- Wealth is at an all time high, most people are still working, inflation and rates remain low, so why not more confidence?
 - Virus fears remain
 - Pandemic depression/exhaustion
 - Deep structural uncertainty: monetary, fiscal, political, and global institutions all in uncharted waters
- If it's only pandemic, that will fade midyear and we will see confidence return quickly



Where do we go from here?

- The U.S. economy is a big ship and will continue to gather momentum as the virus abates
- Three things to watch that will shape the trend
 - COVID induced productivity surge
 - Biden Administration policy shifts
 - Polarization of beliefs and political priorities



COVID-induced invention and innovation



COVID-induced innovation and adoption

- Necessity is still the mother of invention
- Disruption and urgency of pandemic unleashed a wave of changes to supply and demand
 - Remote: work, medicine, education, business meetings
 - Home: exercise, cooking, entertainment, delivery of supplies, school
- The supply side changes create new options
- Will demand changes persist? Pandemic is lasting long enough to break old habits and create new ones



COVID-induced innovation and adoption

- We will keep the best changes and that will drive progress in productivity and quality of life
- Winners: technology companies, tech-savvy employees, online retail and content delivery, large companies, suburban and rural real estate, and investors
- Losing ground: Small businesses and their employees, leisure and hospitality sector, children in poor learning environments, working women, urban real estate, parts of higher ed
- Pandemic has widened the gulf between haves and have nots but will help boost economic growth



Level of happiness

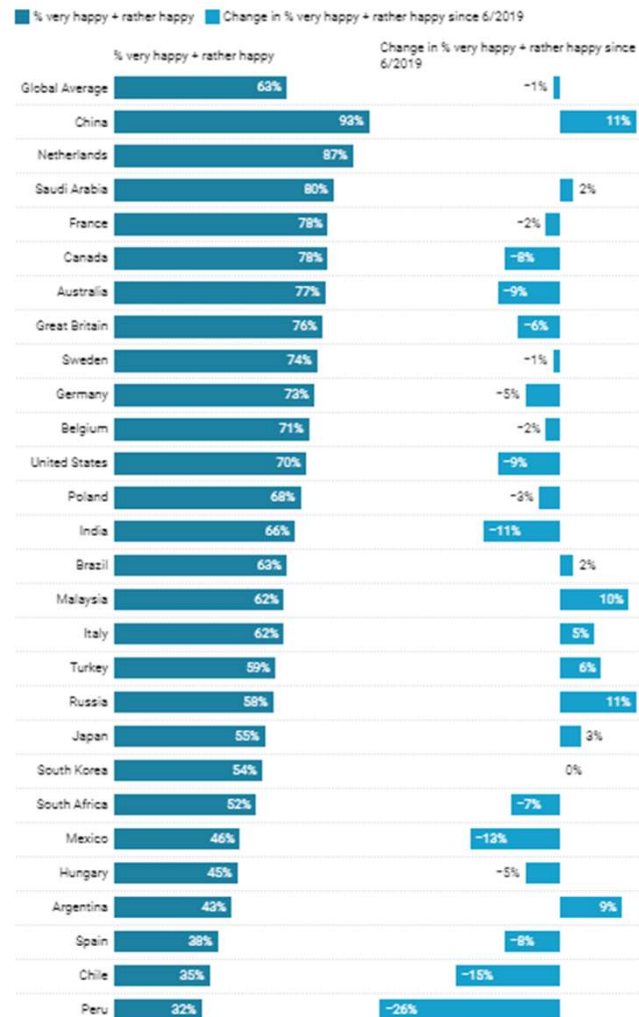
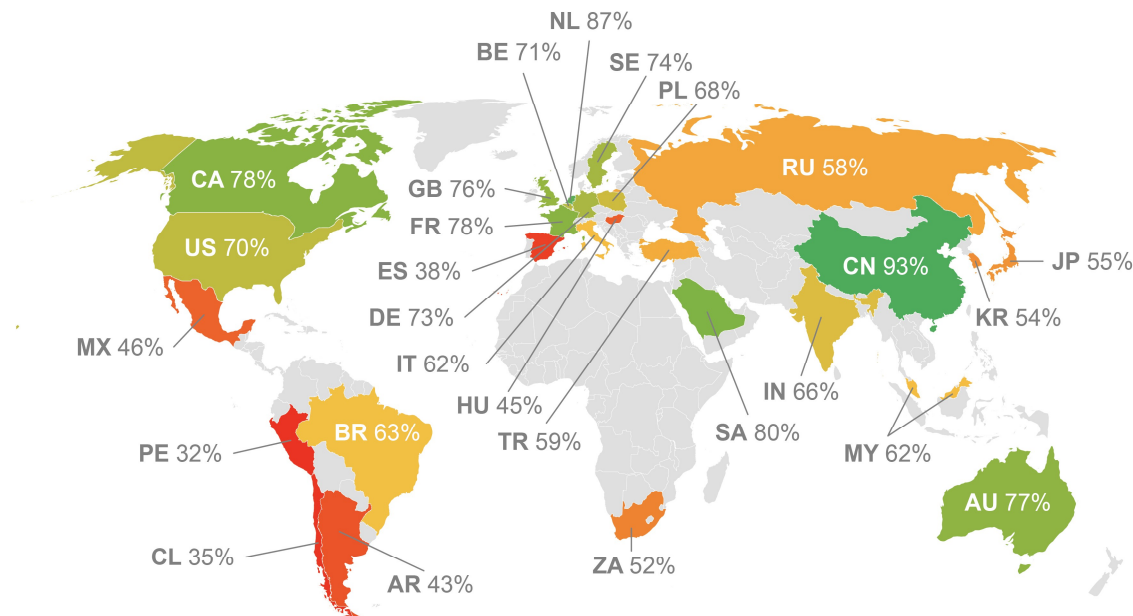


Chart: Ipsos Source: Global Advisor Created with Datawrapper

What percent of people say they are happy?



Change since 2019

Where happiness has increased

China	Turkey
Italy	Argentina
Malaysia	

Where happiness has decreased

Canada	South Africa
Australia	Mexico
Great Britain	Hungary
Germany	Spain
United States	Chile
India	Peru

High | Low | % saying they are very happy or rather happy

19,516 adults polled in 27 countries from July 24 to Aug. 7, 2020



The Biden Administration agenda

- Short term boost from bigger stimulus
- Medium and long term drags on growth will be:
 - Much less business-friendly regulation: Picks for SEC and CFPB favorites among progressives--Bloomberg
 - Weaker incentives to return to work when it is available
 - Ever growing debt burden and possible tax hikes
- Growing tendency to govern by executive orders and regulation will increase uncertainty, erode business confidence



The information divide

- “The Social Dilemma” (Netflix documentary) explains how media competition for profit contributes naturally to the information divide
- Outlets feed a point of view to an audience, audiences are drawn to or driven to content algorithms think they like, usually bonding over the “evil opponents”
- Example: Partisan split on virus concerns was greater in December than it was last spring (Ipsos survey) even though we had more information. People had to be getting different facts!

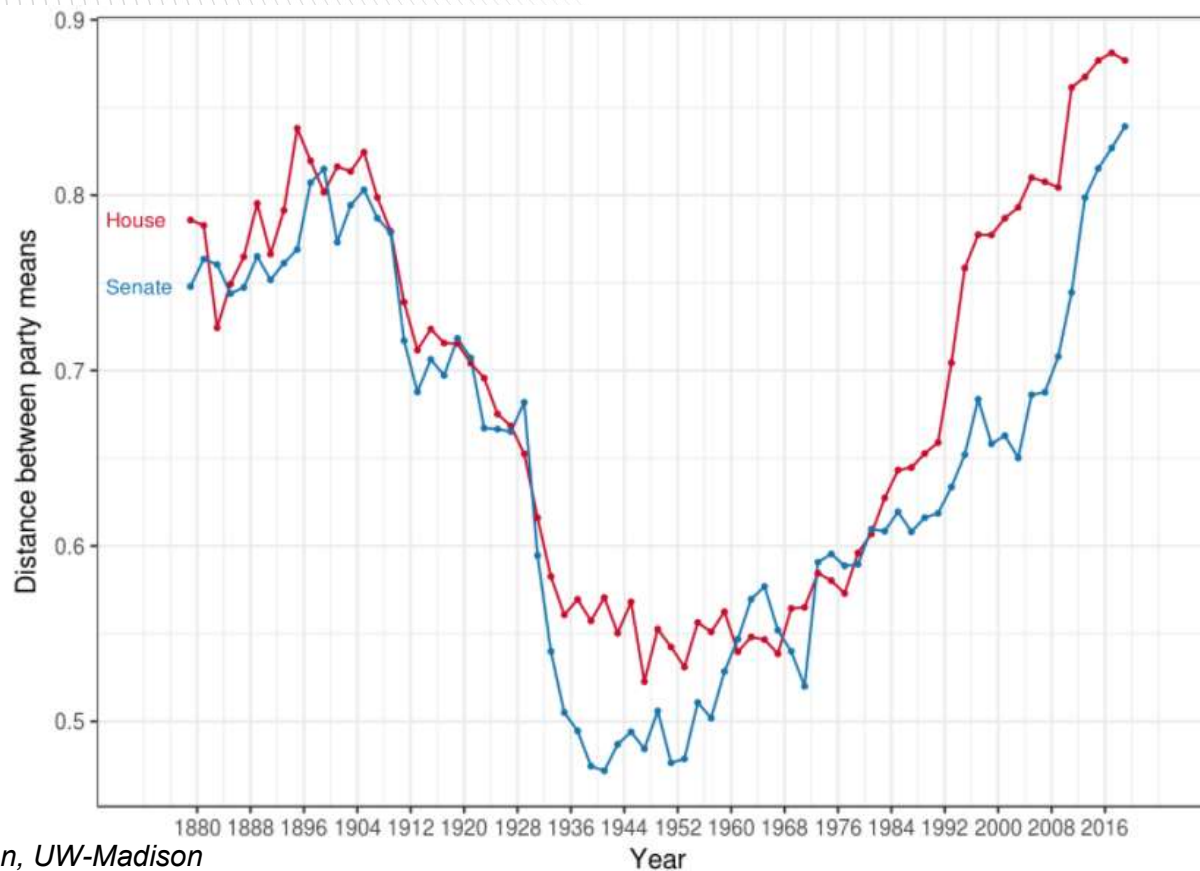


The ideological divide

- The information divide has political consequences
- If people do not agree on the facts, how can they agree on priorities or solutions?
- The ideological gulf in Congress has never been greater in our lifetime

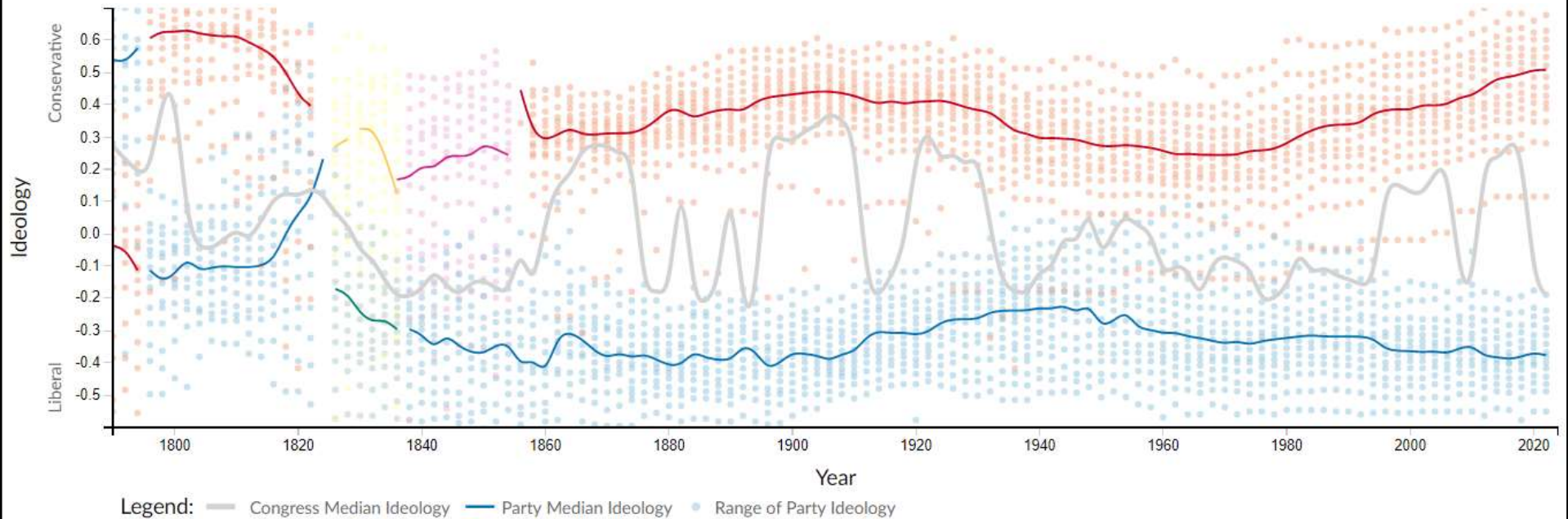


Liberal-conservative partisan polarization by chamber



Source: David Canon, UW-Madison

Congress at a glance: major party ideology



Source: David Canon, UW-Madison

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Leadership matters

- Progress will take leadership from elected officials, and leaders in business, higher education, health care
- Elected leaders cannot reflect the skewed information fed to constituents, but rather must work together to move people toward common facts
- Inability of politicians to work together is in stunning contrast to what we see elsewhere in our economy
- Information, ideological, and identity divides must be mitigated by leaders for a healthy economy and society



2021 predictions

- S&P 500: 0%; Real GDP growth: +5%
- Unemployment 5.8%; Labor Force: +1.5%
- Wage growth: +3%
- Inflation +2.2%; Interest rates up slightly; \$ stable
- The economic story will be the **surge in productivity**, from COVID innovations, and **pockets of inflation** where supply cannot keep up
- The wildcards: Biden agenda, polarization, geopolitics



English Words of the Year: they reflect concerns of information, identity, health

	<u>American Dialect</u>	<u>Oxford</u>	<u>Dictionary.com</u>
2012	Hashtag	GIF	Bluster
2013	Because	Selfie	Privacy
2014	#blacklivesmatter	Vape	Exposure
2015	They (singular)	Face with tears of joy (emoji)	Identity
2016	Dumpster fire	Post-truth	Xenophobia
2017	Fake news	Youthquake	Complicit
2018	Tender-age shelter	Toxic	Misinformation
2019	(My) pronouns	Climate emergency	Existential
2020	COVID	---	Pandemic



Unhappiness through the years

