# SIFMA Research:
# 2020 Mid-Year US Economic Survey

***Forecasts from the SIFMA Economic Advisory Roundtable***

**June 2020**

## SIFMA Economic Advisory Roundtable

The SIFMA Economic Advisory Roundtable brings together Chief U.S. Economists of 26 global and regional financial institutions. This semiannual survey compiles the median economic forecast of Roundtable members, published prior to the upcoming Federal Open Market Committee (FOMC) meeting. We analyze economists' expectations for: GDP, unemployment, inflation, interest rates, etc. We also review expectations for policy moves at the upcoming FOMC meeting and discuss key macroeconomic topics and how these factors impact monetary policy.

Note: The survey was populated between April 30 and May 28.

## Key Takeaways

- 2020 GDP forecast -5.5% for 2020 (median forecast, 4Q/4Q); 2021 +4.7%
- Economists do not expect the Fed to take its target interest rate negative

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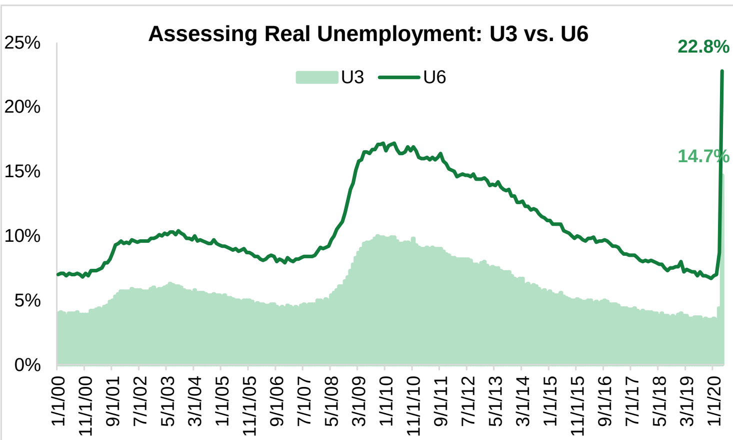
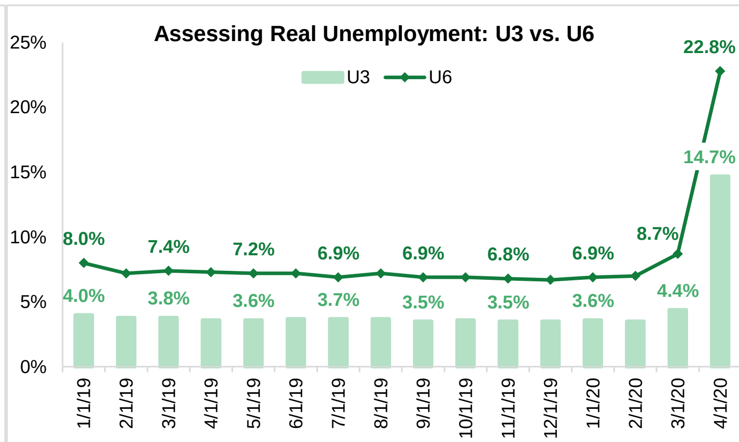
## Setting the Scene

The emergence of the global pandemic COVID-19 in the first quarter of 2020 has created a severe economic and capital markets shock. In an unprecedented move, federal, state and local governments purposely shut down economic activity to prevent the spread of the virus. Everything from restaurants to theme parks to manufacturing plants closed, and people self-isolated in their homes. According to the official data provided by the Bureau of Labor Statistics (BLS), more than 23 million jobs have been lost, with the reported U3 unemployment rate at a record-high 14.7% in April. However, the U6 statistic (a broader measure of underemployment) painted an even bleaker picture in April: over 36 million unemployed, for a 22.8% unemployment rate.




Source: St. Louis Fed

Yet, even U6 may not fully capture the extent of the pain. Betsey Stevenson, currently a Professor of Economics and Public Policy at University of Michigan's Gerald R. Ford School of Public Policy and formerly a member of the Council of Economic Advisers and Chief Economist of the U.S. Department of Labor, indicated April data included some incorrect classifications. "Interviewers were told to classify people who were employed but absent from work due to COVID-19 related reasons as temporarily unemployed. Many did this incorrectly – correcting for this error raises the [U3] unemployment rate to nearly 20%." With these miscalculations and backlogs in registering unemployment claims in many states, the shadow unemployment number could be closer to 30%.

In light of these economic dislocations, we have switched up the format of the semi-annual survey of our Economic Advisory Roundtable members. Typically, we would compare movements in current forecasts to the last survey. However, with broad agreement that the U.S. is already in a recession, numbers have fallen off a cliff (or skyrocketed for metrics like the unemployment rate) and comparisons to prior forecasts have become irrelevant. The world has changed, and so must this survey.

We are now asking questions like will the Fed take its target interest rate into negative territory? What shape of economic recovery will the U.S. experience (swoosh-shaped, V-shaped, W-shaped)? What are longer-term expectations for interest rates and GDP growth? In other words, what might be the new normal and when will we get there?

## Recapping Pre COVID-19 Forecasts

Before digging into this year's survey results, we recap highlights from our December 2019 survey: https://www.sifma.org/resources/research/us-economic-outlook-survey-end-year-2019/

- GDP growth estimate for 2020 was 1.8% (median forecast, 4Q/4Q)
- Top factors effecting economic growth: trade policy, business confidence & private credit market conditions
- Top risks to economic forecasts: trade/tariffs and global growth for both the up and downside
- The probability of a recession in the next 12 months was 25% on average (high 65%, low 10%)
- Economists expected the unemployment rate to tick up slightly to 3.7% in 2020
- 50% of respondents believed the Fed's next rate move would be up (44% down, 6% on hold)
- Economists expected inflation (measured by the PCE deflator) to increase to 2.1% in 2020
- 57% of respondents noted the Phase 1 trade deal with China would prevent future tariffs (36% not enough information, 7% no change); 80% of respondents expected the final deal to be light (eliminating tariffs/reducing U.S. trade deficit), with 13% no deal and 7% full (including IP protection)

In summary, while there were concerns around slowing global economic growth, the U.S. economy was holding up well. Trade and tariffs were top of mind, not labor market conditions or plummeting into a recession. And then came COVID-19.

# Setting the Scene

## 2H20 Survey Results Summary

Unsurprisingly, both the current and forecasted GDP numbers now show an expectation that 2020 is headed for the deepest recession on record (-5.5% 4Q/4Q), with the U.S. not recovering fully by the end of 2021 (4.7% 4Q/4Q). To be sure, forecasting during crisis times is difficult at best. There are too many unknowns, and what we think we know appears to change daily. The majority of state and local economies have begun to open, but what will the new normal be? Will customer preferences have permanently shifted? How will businesses need to readjust? What portion of the jobs lost will become permanent? In addition to the demand side, fundamentals factors are shifting on the supply side as well.

Therefore, instead of comparing to past numbers, we asked our Roundtable of economists to provide their best assessment of a new normal and when we can get there. We highlight the following from the survey:
(Note: This survey was populated between April 30 and May 28.)

- **Economic Growth**
  - 77% of economists expect a swoosh-shaped economic recovery, followed by 9% for both V-shaped and U-shaped
  - 43% of respondents expect nominal GDP to return to its pre COVID-19 level (in relation to 4Q19) by the end of 2022
  - 77% of economists expect the long-term potential GDP growth rate is between 1.5% and 2%, with 55% stating this has not changed from pre COVID-19 estimates (i.e. COVID-19 is not expected to have long-term effects)

- **Interest Rates**
  - Will the U.S. follow other countries and regions into negative rate territory? 100% of respondents said no
  - Top factors impacting the Fed's rate decision: labor impact of COVID-19, large scale return to work, and if there is a second wave of COVID-19
  - 86% of economists think rates will not begin to normalize until after 2021

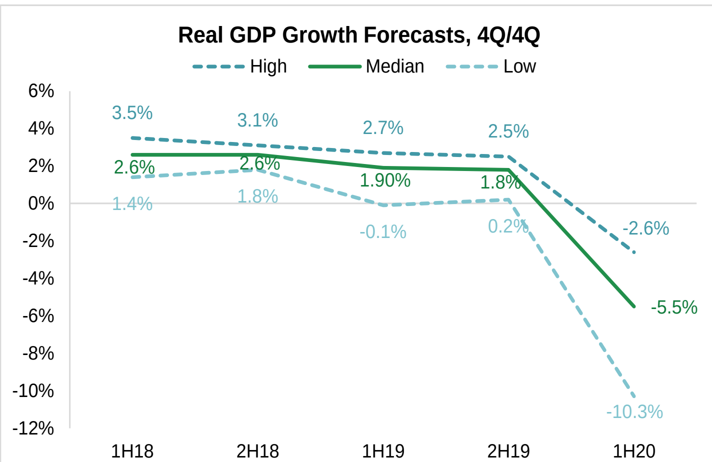
- **Trade Policy**
  - 45% said the focus will return to tariffs and trade negotiations by 2021; 40% said 2H20 if there is not a second wave of COVID-19
  - 50% of respondents expect no trade deal between the U.S. and China, followed by 45% expecting a light deal (eliminating tariffs) and 5% expecting a full deal (IP protection)
  - Will negative sentiments around China's handling of COVID-19 impact future trade negotiations? 55% of economists responded 'significantly,' followed by 40% 'somewhat.' None believe that it ends all chances of negotiation

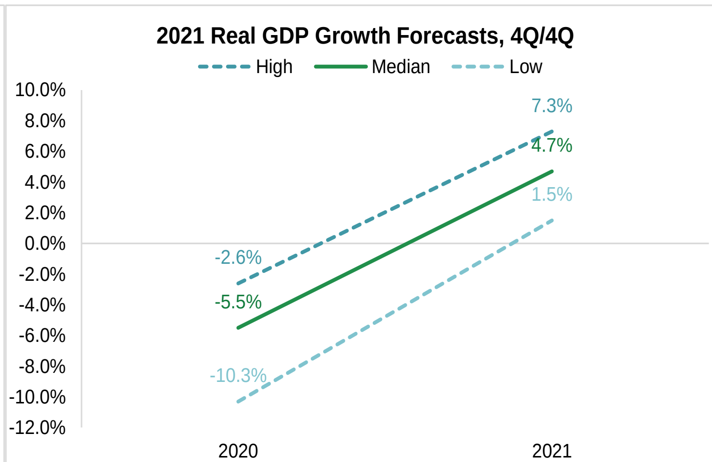
## The Economy

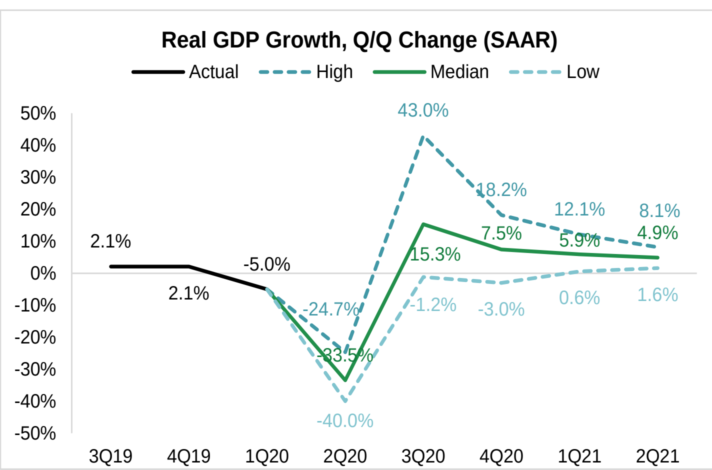
### GDP Growth Expectations

Our Roundtable economists expect GDP growth to be -5.5% for 2020 (median forecast, 4Q/4Q). For 2021, the median forecast sees GDP increasing by 4.7% (4Q/4Q).

(December survey: 2020 GDP growth 1.8%; median forecast, 4Q/4Q)



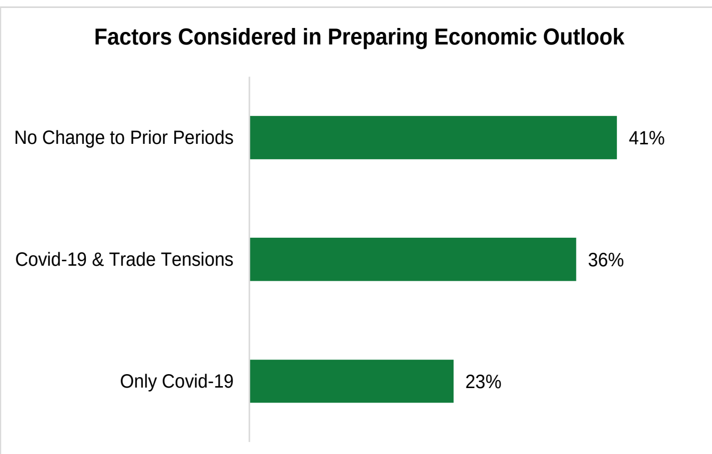

Source: Bureau of Economic Analysis, SIFMA Economic Advisory Roundtable

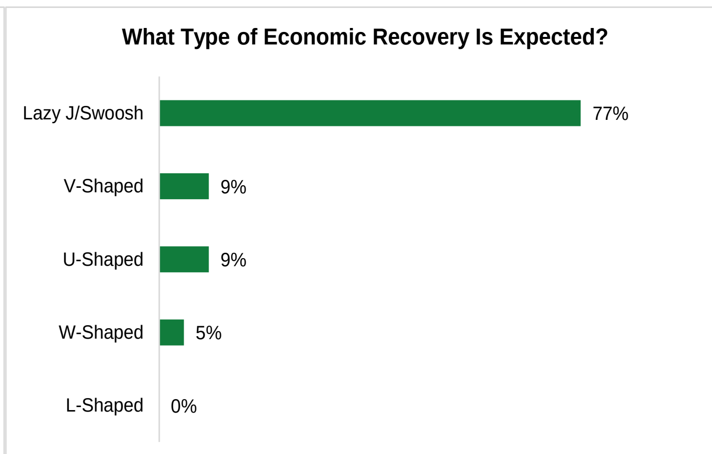
Note: SAAR = seasonally adjusted annual rate

## COVID-19 Impact on the Economic Outlook

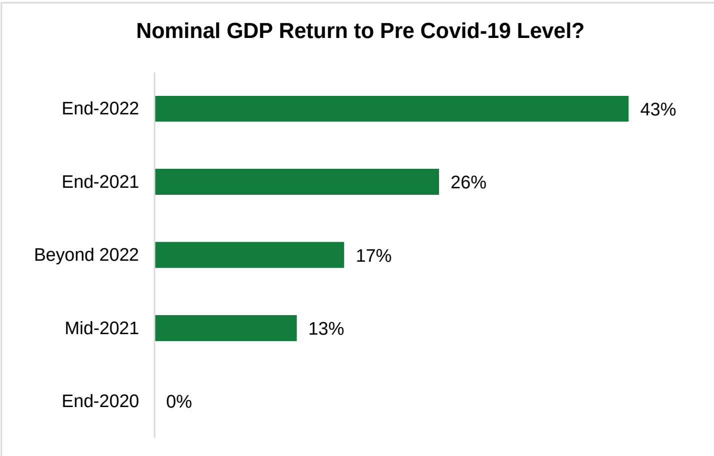
As we mentioned, these are difficult times for forecasting. Therefore, we polled our economists for just how all-encompassing COVID-19 is for estimates.

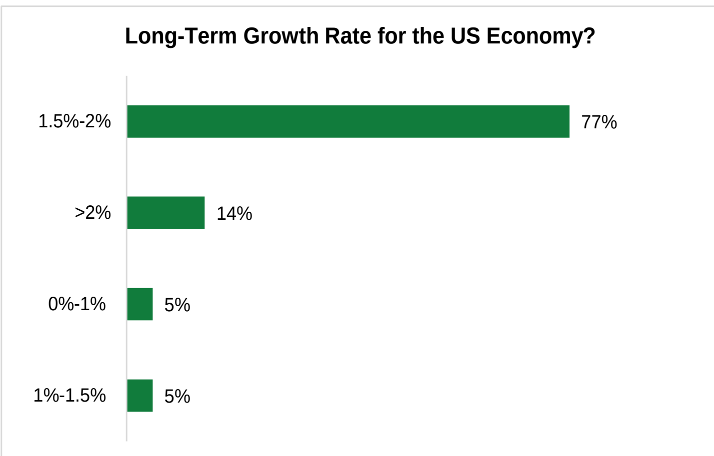
- 59% of respondents have taken into consideration COVID-19 and trade tensions
- 77% of economists expect a swoosh-shaped recovery, followed by 9% for both V-shaped and U-shaped
- 43% of respondents expect nominal GDP to return to pre COVID-19 levels (in relation to 4Q19) by End-2022
- 77% of economists expect the long-term potential growth rate is between 1.5% and 2%, with 55% stating this has not changed from pre COVID-19 estimates (i.e. COVID-19 is not expected to have long-term effects)
- Economists that lowered their long-term potential growth rate for the U.S. economy listed the following as the main drivers of the new forecast: reduction in productivity due to precautionary measures; larger role of the federal government; bankruptcies; and depressed consumer and business expectations

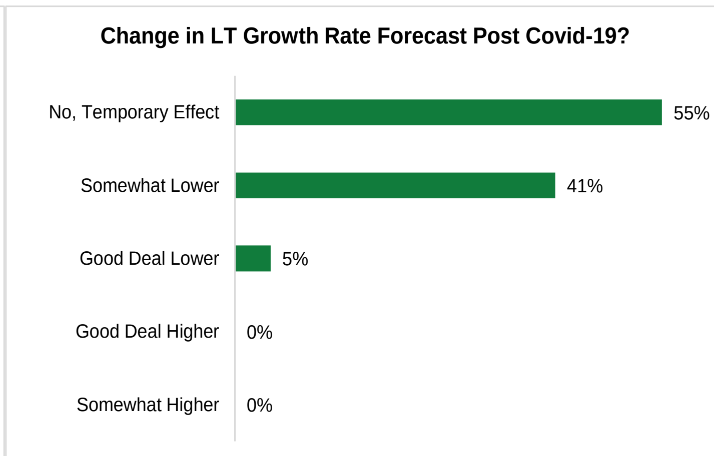



Source: SIFMA Economic Advisory Roundtable



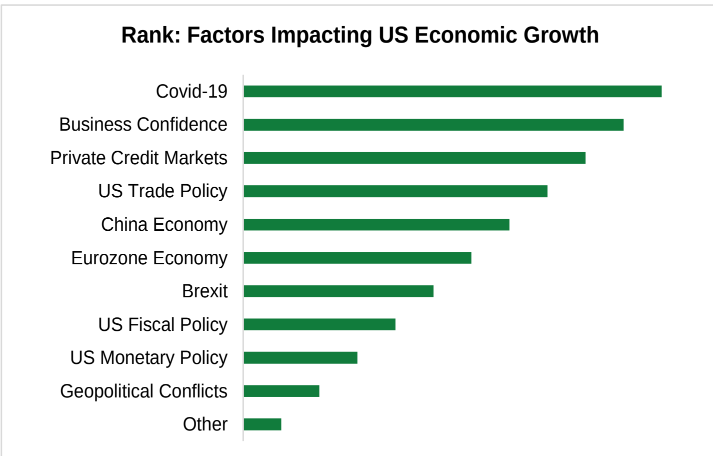




Source: SIFMA Economic Advisory Roundtable

## Risks to Economic Forecasts

When asked to rank the factors that have the greatest impact on forecasts of U.S. economic growth, COVID-19 was on the top of the list, followed by business confidence and then private credit markets.

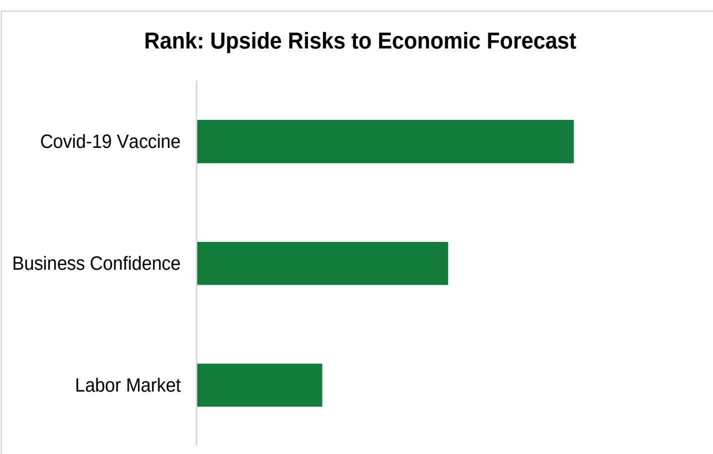
(December survey: U.S. trade policy, business confidence in the U.S. and then private credit market conditions)

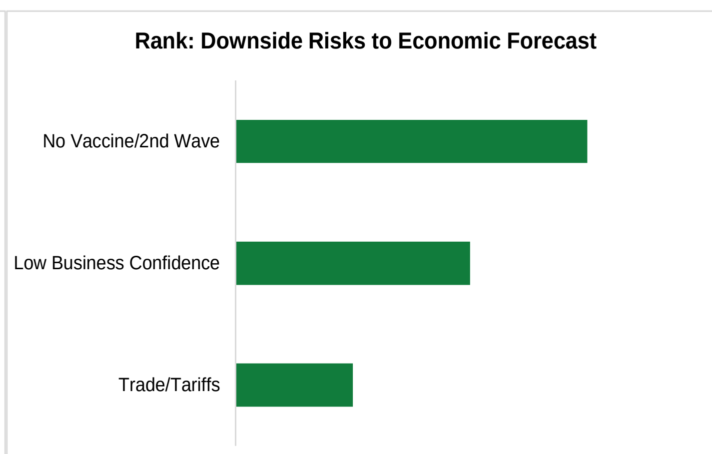



Source: SIFMA Economic Advisory Roundtable

Therefore, our Roundtable of economists list the following top risks to their economic forecasts:

- **Upside** – vaccine for COVID-19, business confidence, and labor market
- **Downside** – no vaccine or 2nd wave of COVID-19, lower business confidence, and escalation in trade/tariffs



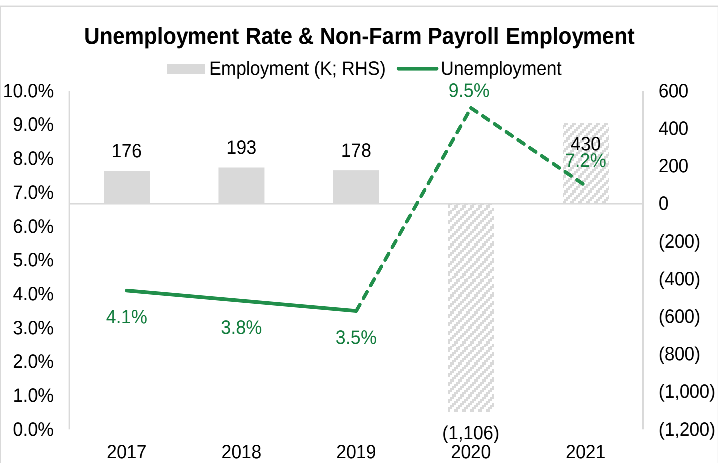

Source: SIFMA Economic Advisory Roundtable

Note: Ranked by number of times an economist listed a factor, those with the most responses on top. Business confidence = growth in confidence, spending, income

## Employment and the Consumer

As of April 2020, the U.S. unemployment rate was at a historically high 14.7% - versus 3.6% to start the year – as the economy was shut down to stop the spread of COVID-19. Economists expect the already elevated unemployment rate to move higher in 2020 before ending the year at 9.5% in 2020 and ending 2021 at 7.2% (4Q/4Q). Employment growth (average monthly change in non-farm payroll employment) is expected to be negative in 2020, at -1,106k.

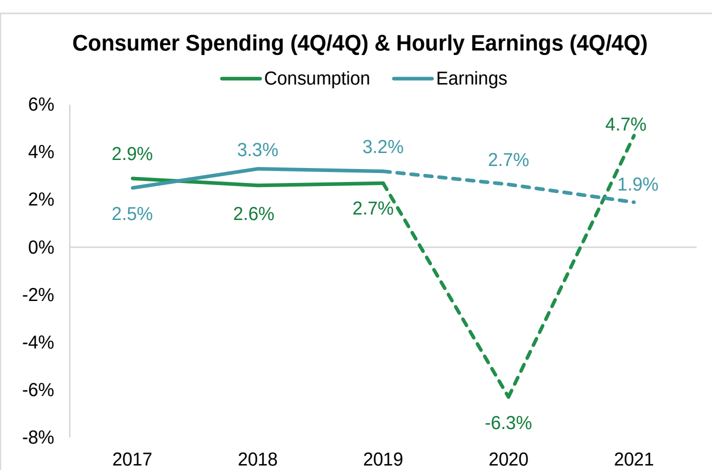
(December survey: +139,000 for 2020)




Source: Bureau of Labor Statistics, SIFMA Economic Advisory Roundtable
Note: Average monthly change for non-farm payroll employment, 4Q/4Q for unemployment rate

In light of these unemployment expectations, economists expect real personal consumption growth to come in at -6.3% at the end of 2020, then rebound to 4.7% in 2021 (4Q/4Q). There is an expected decrease in average hourly earnings to 2.7% in 2020 and 1.9% in 2021.

(December survey: 2.1% real personal consumption growth; 3.2% average hourly earnings)




Source: Bureau of Economic Analysis, SIFMA Economic Advisory Roundtable

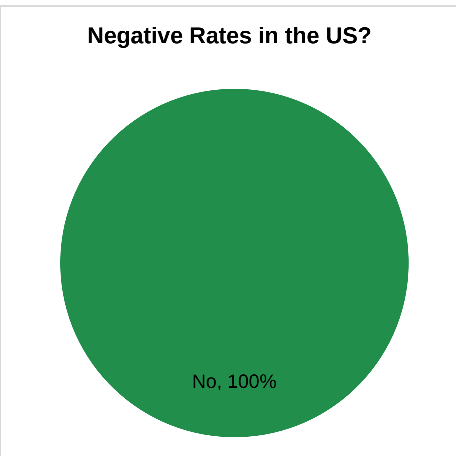
## Monetary Policy

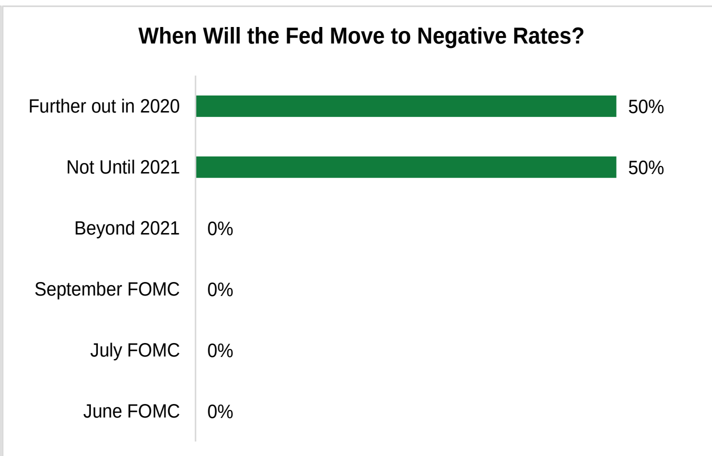
### The Big Rate Debate

Normally, we would ask the Roundtable to share expectations of the Fed's next rate move at the upcoming FOMC meeting.

(December survey: 50% up, 44% down, 6% hold; if up, 88% said after 2020; if down, 43% said 2Q20, 29% for both 1Q20 and 4Q19; terminal rate 2.1%)

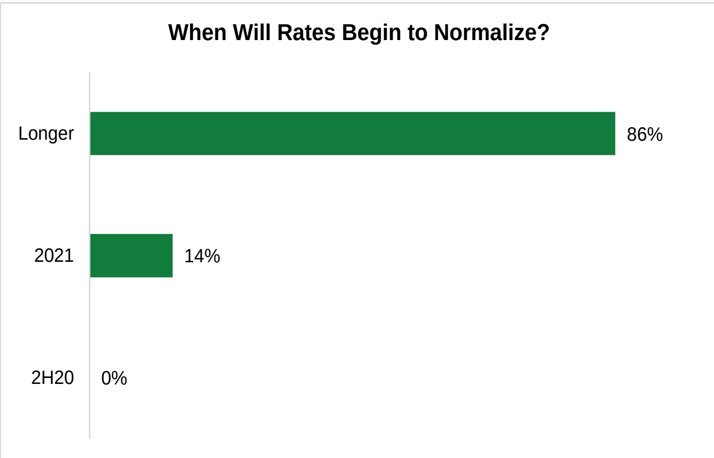
With the current Federal Funds rate target range at 0.00%-0.25%, as part of the Fed's actions to use its full range of tools to support the economy hit by the COVID-19 crisis, the question shifts to whether the U.S. will follow other countries and regions into negative rate territory? 100% of our Roundtable economists said the U.S. won't take its target rate into negative territory. If rates were to go negative, respondents were split 50%/50% as to timing, further out in 2020 or not until 2021.

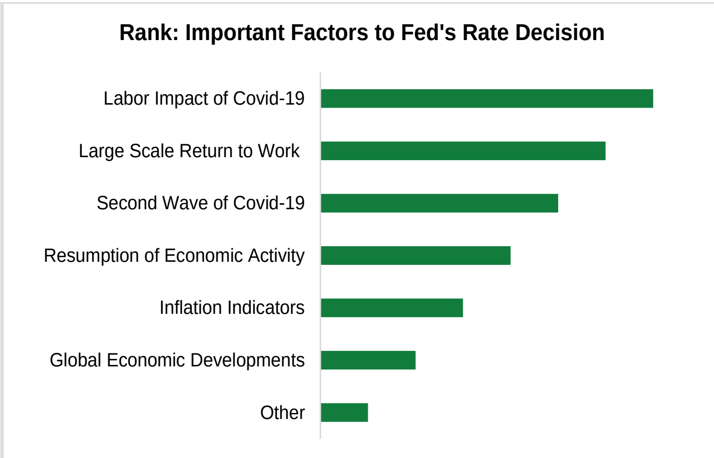


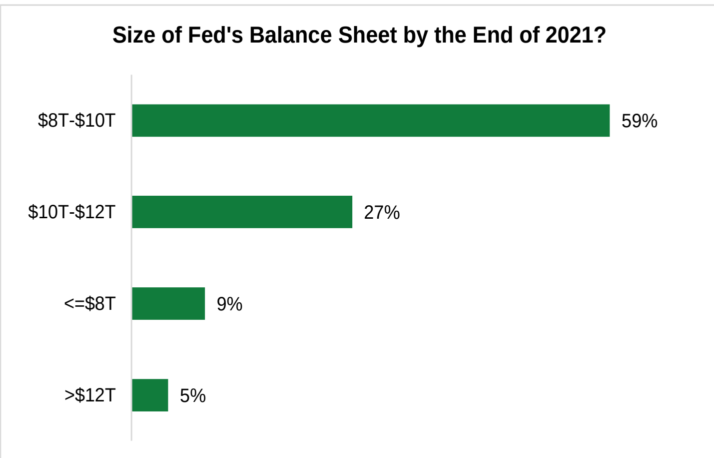



Our economists opined on other rate and Fed balance sheet questions:

- 86% of respondents think rates will not begin to normalize until after 2021
- Top factors to the Fed's decision making: labor impact of COVID-19 and large scale return to work
- Given the Fed's increase of asset holdings and the credit facilities, 59% of economists expect the Fed's balance sheet to reach $8-$10 trillion by the end of 2021, followed by 27% forecasting $10-$12 trillion

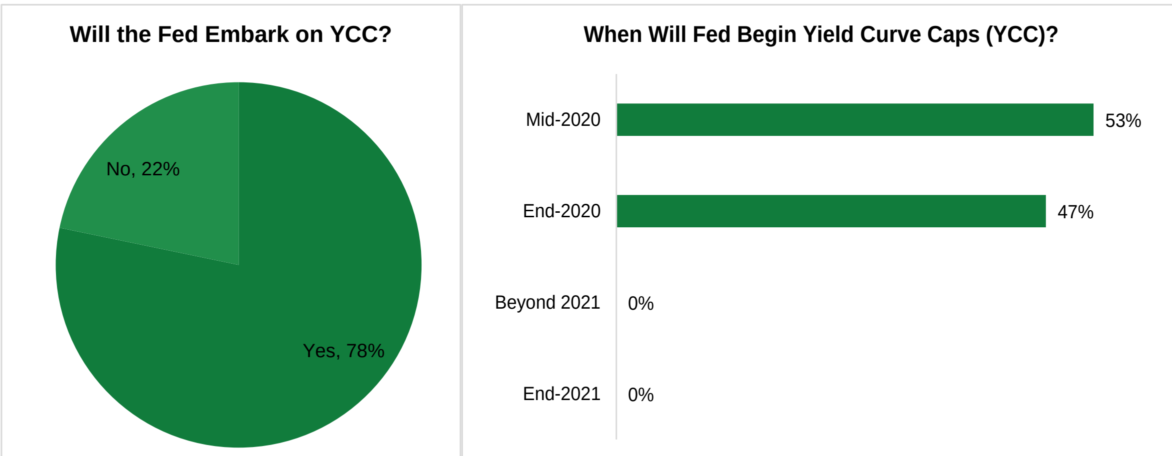



Source: SIFMA Economic Advisory Roundtable

One monetary tool the Fed could use (in addition to forward guidance or quantitative easing/QE) to boost the economy when short-term interest rates hit zero is yield curve caps or control (YCC), alternatively called interest rate pegs. Instead of raising or lowering very short-term interest rates (ex: rate banks earn on overnight deposits) to move the economy, YCC targets some longer-term rate, with the Fed prepared to buy long-term bonds to keep the rate from rising above its target. 78% of economists surveyed expect the Fed to embark on some form of YCC. 53% of respondents expect the Fed to begin YCC by mid-2020, with 47% forecasting the end of 2020.

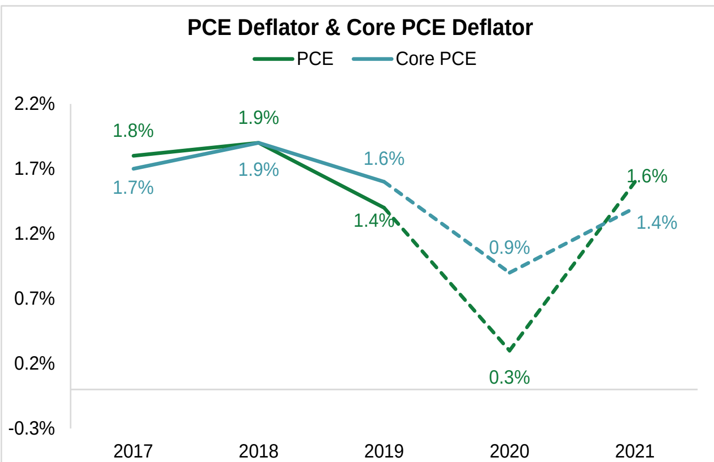



Source: SIFMA Economic Advisory Roundtable

## Inflation Expectations

In terms of inflation, economists expect it to decrease to 0.3% for the PCE deflator and 0.9% for the core PCE deflator in 2020 (year-over-year). This compares to 1.4% and 1.6% in 2019, respectively.

(December survey: 2.1% and 2.2% respectively for 2020)



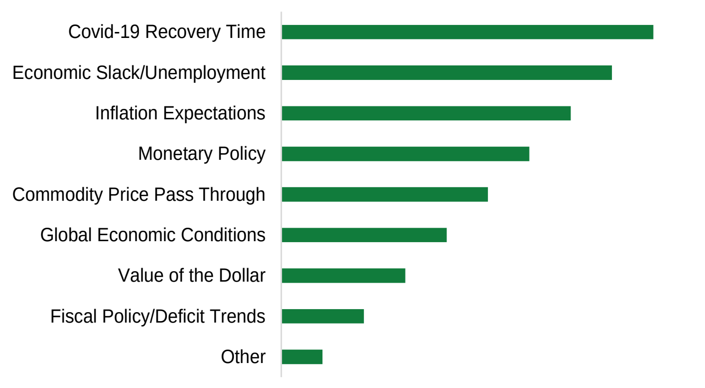

Source: Bureau of Economic Analysis, SIFMA Economic Advisory Roundtable

Digging further into inflation, and the potential for deflation, respondents indicated: (charts on the next page)

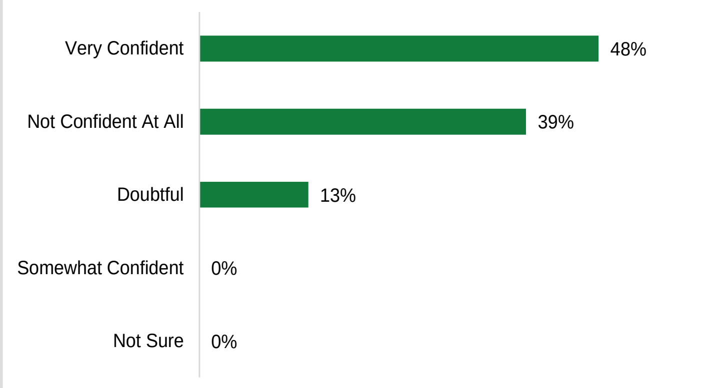
- Top factors in outlook for core inflation: COVID-19 recovery time and economic slack/unemployment
- There is a divergence of opinions as to whether the Fed can achieve its 2% inflation target in a sustainable way, with 48% of economists very confident versus 39% not confident at all
- 41% of respondents expect a 15% to 25% probability the U.S. will experience a period of deflation (falling headline prices) in the next two years, followed by 32% responding 0% to 15% probability
- 45% of respondents expect a 0% to 15% probability the U.S. will experience structurally higher inflation over the long-term, followed by 36% responding 15% to 25%
- Top factors to push inflation higher: reversal of globalization and sustained breakdown of supply chains

(December survey: top factors = inflation expectations and economic slack/unemployment; 36% somewhat confident, 36% doubtful the Fed can achieve its 2% goal)

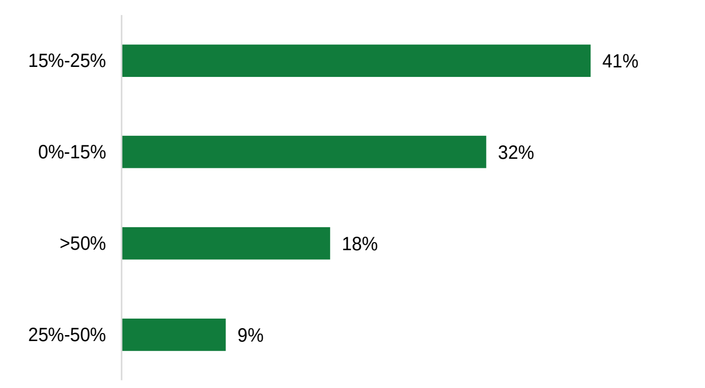
**Rank: Factors Important to Core Inflation Outlook**



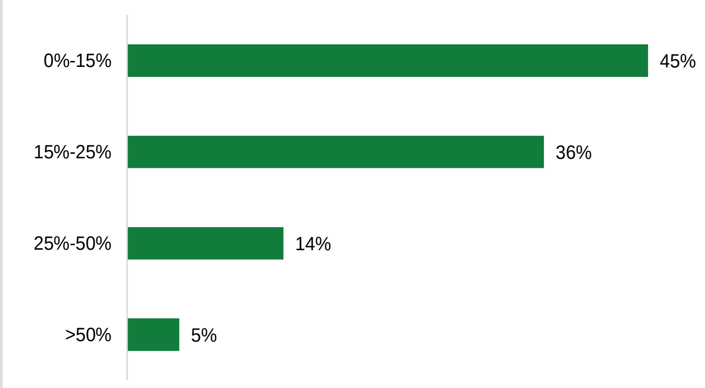

**Confidence in Fed Achieving 2% Inflation Target?**



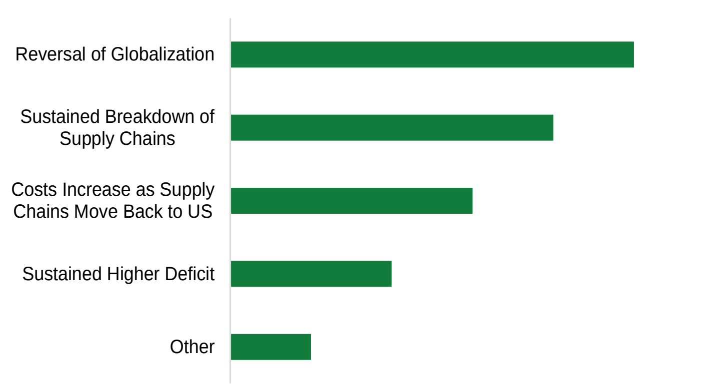

**Probability of US Deflation in the Next Two Years?**




**Probability of Structurally Higher Inflation in the US?**




**Rank: Factors Contributing to Higher Inflation**

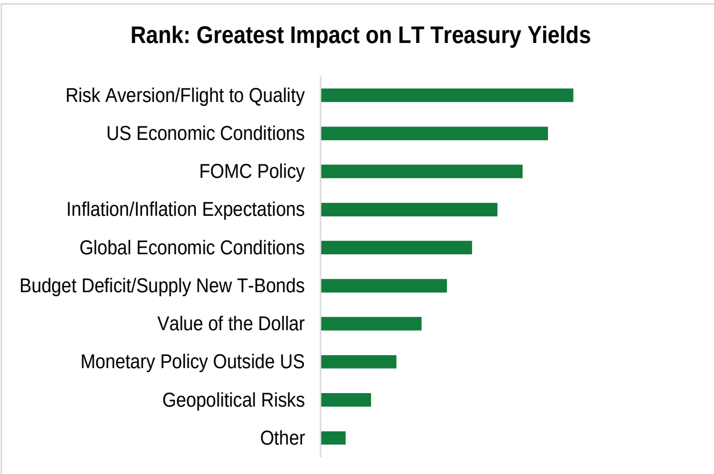



Source: SIFMA Economic Advisory Roundtable

## Interest Rates and Credit Markets

Below we rank respondents' factors that have the greatest impact on expectations for long-term Treasury yields in 2020: risk aversion/flight to quality and U.S. economic conditions were the top factors.

(December survey: global and U.S. economic conditions ranked at the top, followed by FOMC policy)

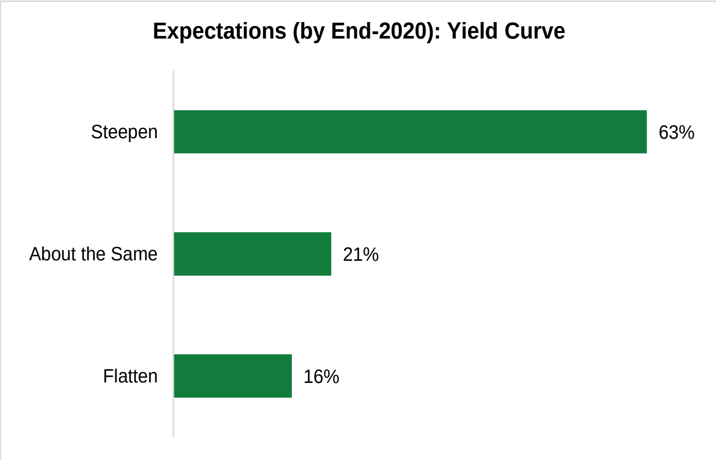


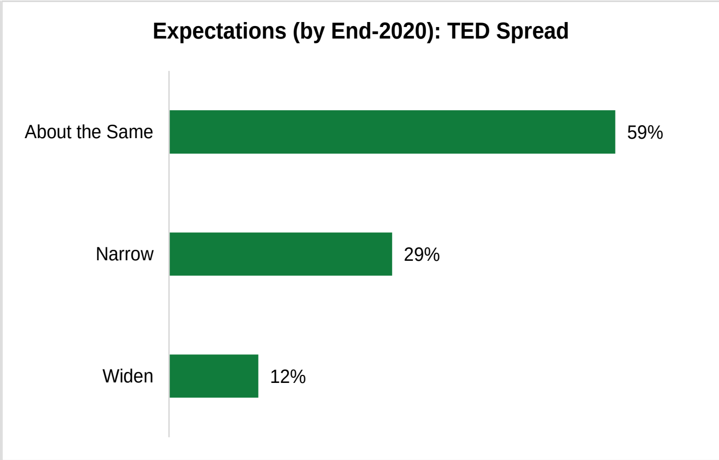

Source: SIFMA Economic Advisory Roundtable

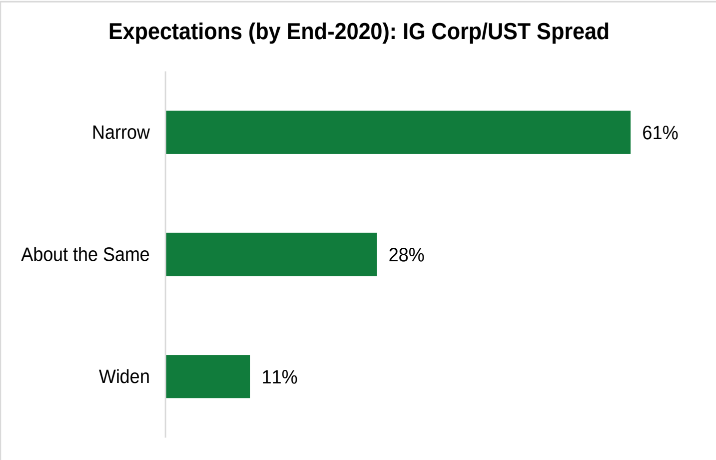
Respondents expect the following movements in key rates:

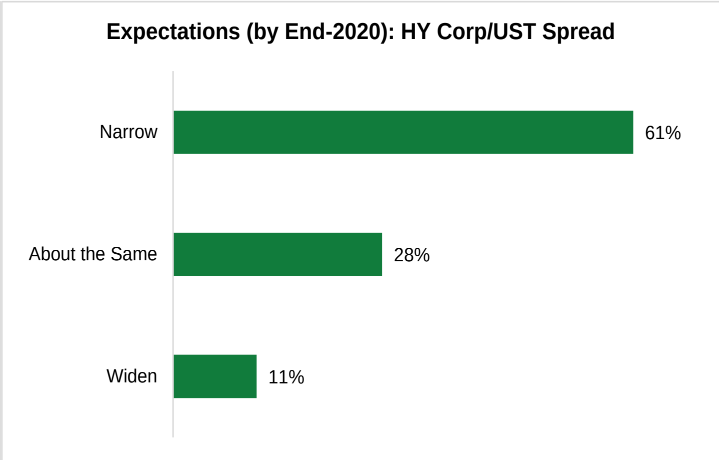
- Yield curve (Fed funds-to-10-year Treasury yield) = 63% steepen
- TED (Treasury-to-Eurodollar, now LIBOR) = 59% remain the same
- Investment-grade corporate-to-Treasury spreads = 61% narrow
- High-yield corporate-to-Treasury spreads = 61% narrow

(December survey: YC 70% steepen; TED 69% remain the same; IG/UST 50% widen; HY/UST 69% widen)



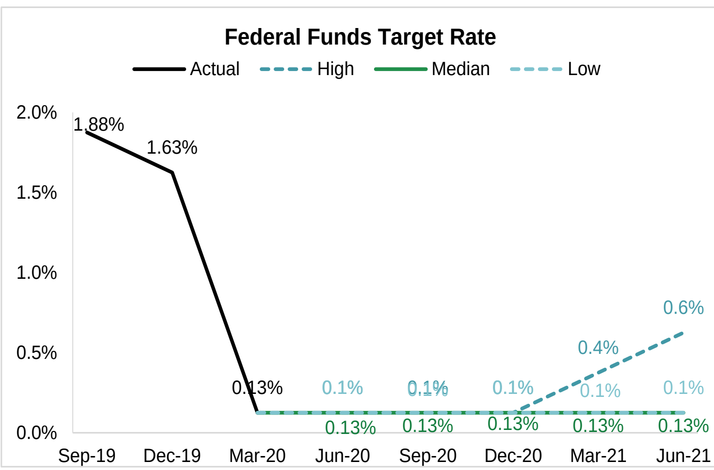



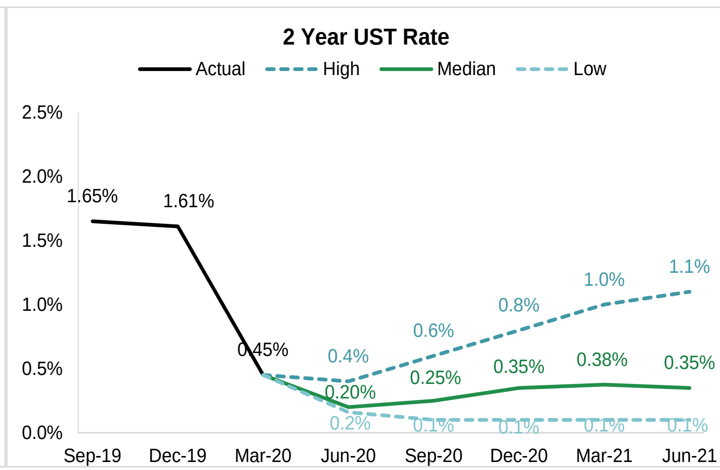

Source: Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable
Note: Monthly averages. Fed funds = midpoint of target rate range

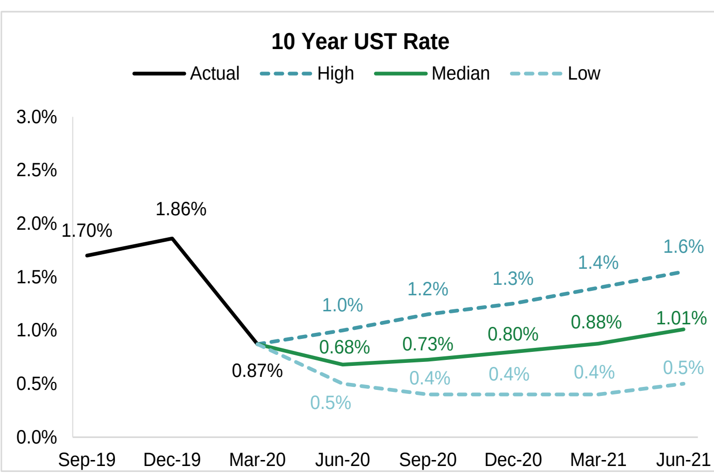
Surveyed economists expect the following rates and therefore yield curve: (additional chart on next page)

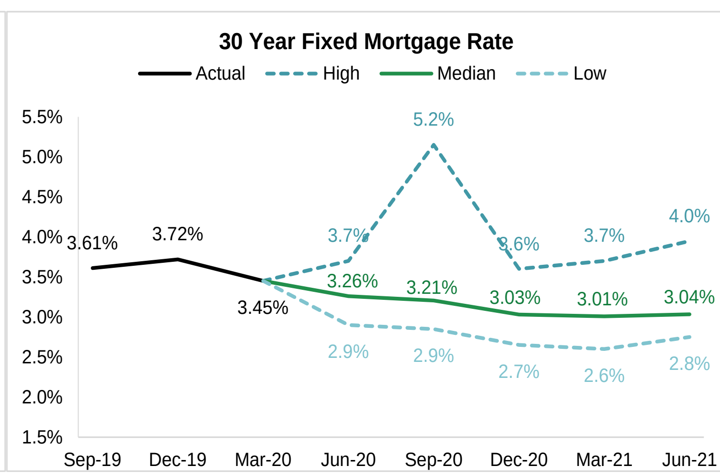
- Fed Funds = 2Q20 0.13%, 4Q20 0.13%
- 2-Year UST = 2Q20 0.20%, 4Q20 0.35%
- 10-Year UST = 2Q20 0.68%, 4Q20 0.80%
- 30-Year Mortgage = 2Q20 3.26%, 4Q20 3.03%

(December survey: FF 1.625%-1.620%; 2Y 1.563%-1.600%; 10Y 1.715%-1.850%; 30Y mort 3.655%-3.775%)

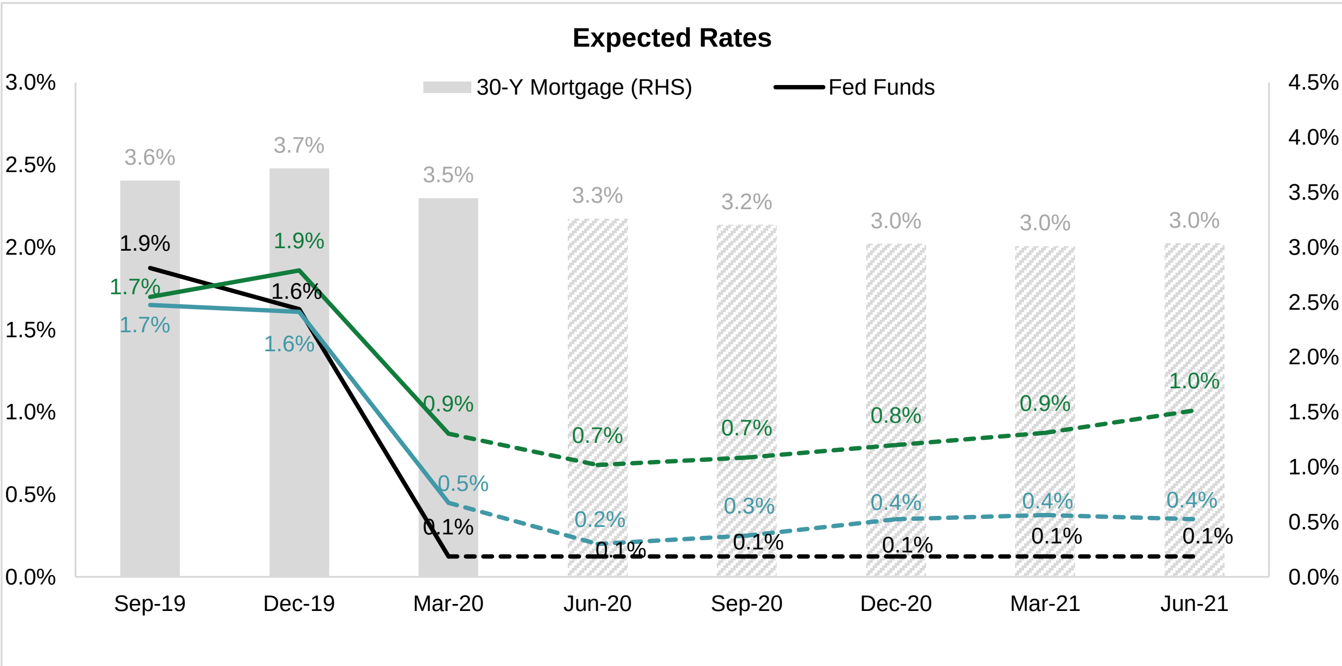



Source: Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable



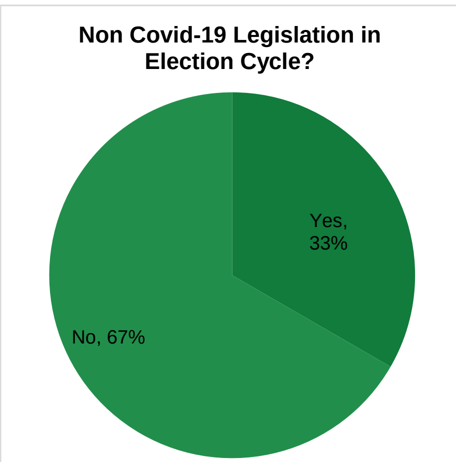

Source: Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable

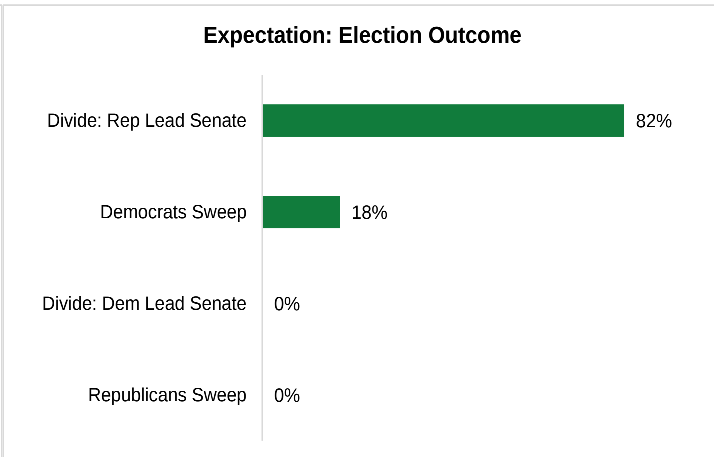
## Macro Policy

### Legislation

67% of respondents expect no major non COVID-19 related legislation during the upcoming election cycle. If further major legislation is passed, it would be around fiscal stimulus or healthcare, both related to COVID-19. The economists were asked to describe the 2020 election outcome they were assuming when answering. 82% responded a divided government with Republicans leading Senate, followed by 18% expecting a Democratic sweep.

(December survey: pre-COVID only 7% responded yes; expected legislation is in infrastructure)




Source: SIFMA Economic Advisory Roundtable

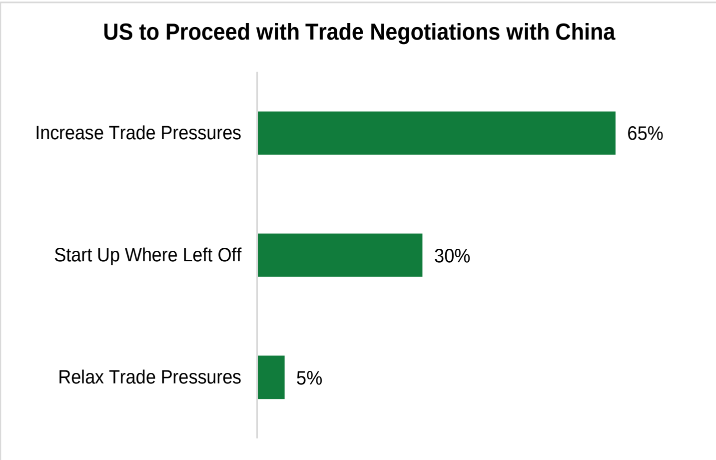
## Trade Policy

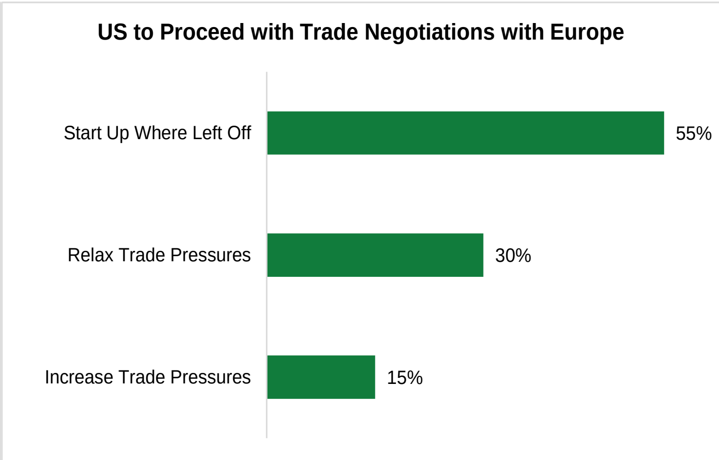
In the trade policy section of the survey (focused on tariffs on China and the EU), we analyzed the shift in sentiment prior to COVID-19 versus currently. (charts continued on next page)

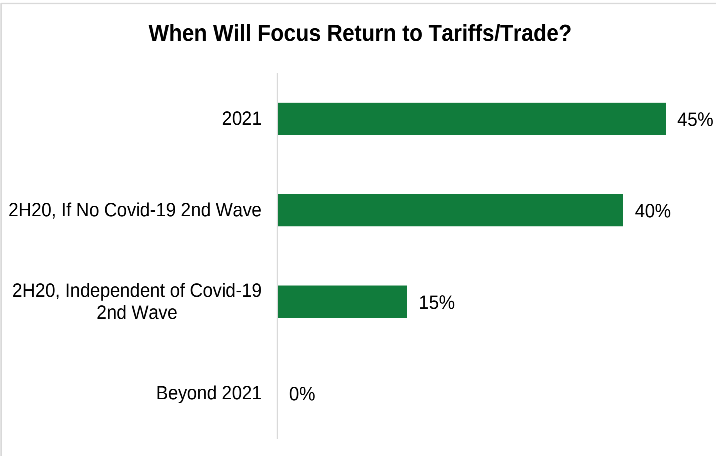
**Note: This survey was put into the field and populated prior to China's passing of the Hong Kong security law and the certification to Congress by Secretary of State Mike Pompeo that Hong Kong no longer enjoys a high degree of autonomy from China.**

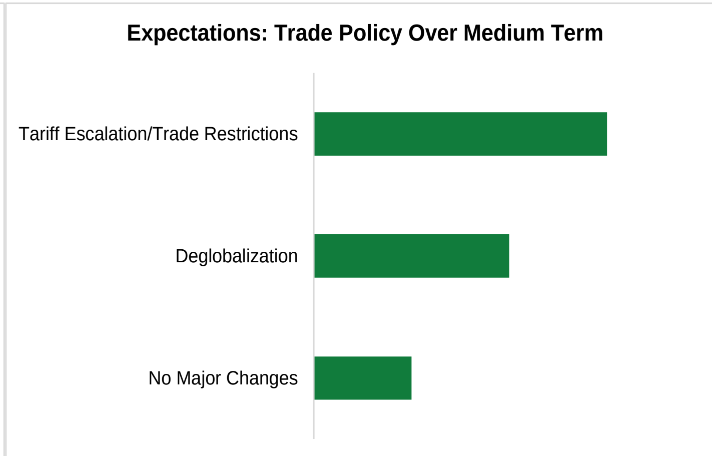
- U.S. to proceed with trade negotiations with China with: 65% responded increased trade pressures, 30% start up where they left off
- U.S. to proceed with trade negotiations with Europe with: 55% responded start back up where they left off, 30% relax trade pressures
- 45% of economists expect the focus to return to tariffs and trade negotiations by 2021, with 40% believing this will happen in 2H20 if there is no second wave of COVID-19
- Economists indicated their expectations for tariffs/trade policy over the medium term include tariff escalation/trade restrictions and deglobalization
- 50% of respondents expect the U.S. and China to eventually agree on no trade deal, followed by 45% a light deal (around only eliminating tariffs, reducing the U.S. trade deficit with China) and 5% still holding out hope for a full deal (includes IP protection)
- When asked if the current negative sentiments around China's handling of COVID-19 will impact future trade negotiations, 55% of economists responded significantly, followed by 40% somewhat – (happily,) 0% responded it ends all chances of negotiation
- When asked if they assumed no change in the presidential party or makeup of Congressional leadership when responding, i.e. a political status quo, 76% said yes

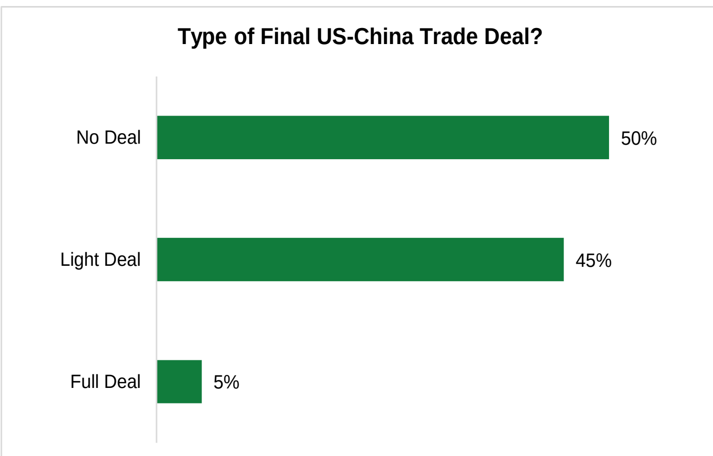
(December survey: US and China to agree on 80% light deal, 13% no deal, 7% full deal)

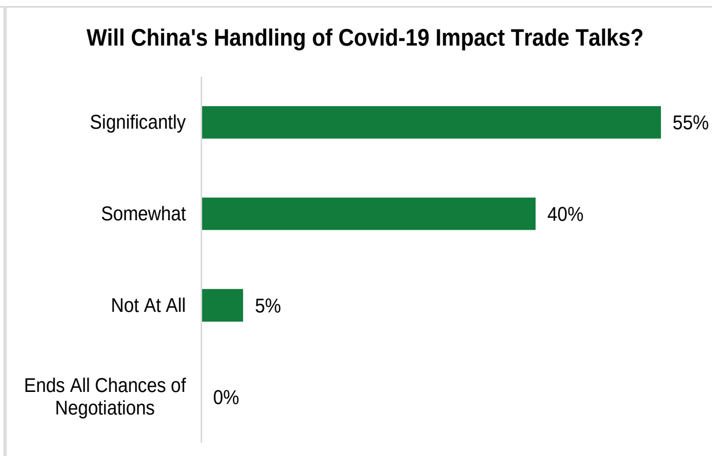


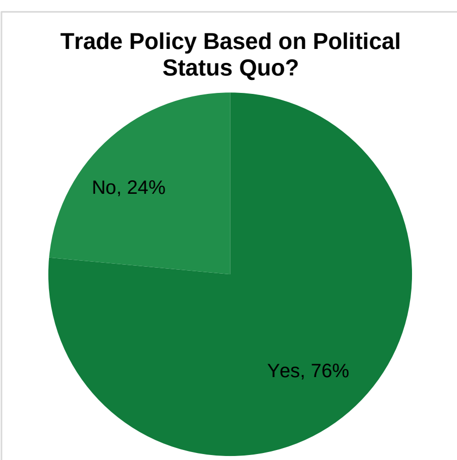





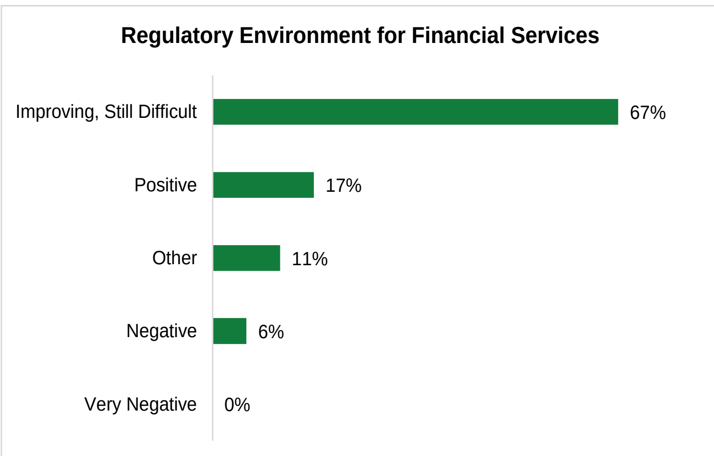



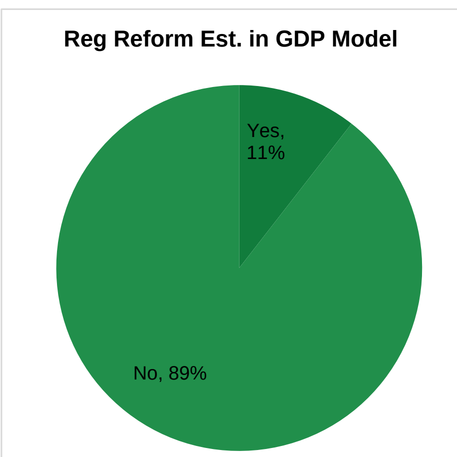

Source: SIFMA Economic Advisory Roundtable

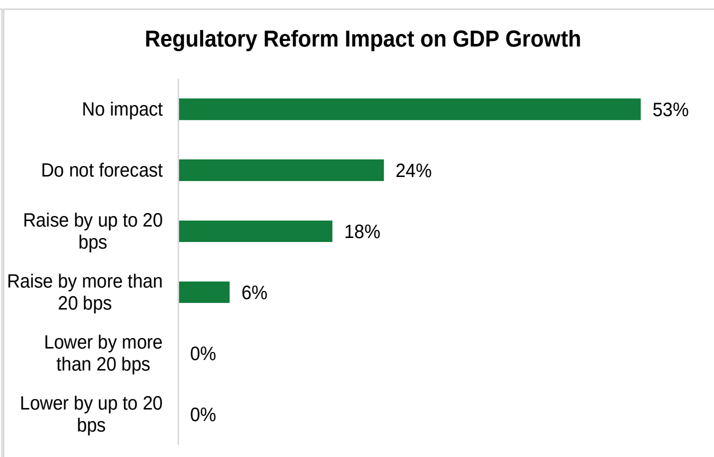
## Regulatory Policy

67% of respondents believe the regulatory environment for financial services is improving but still difficult. 89% of economists do not build estimates for the impact of regulatory reform into their GDP forecast model, and 53% indicate significant reform would have no impact on their GDP growth forecasts.

(December survey: 77% improving but still difficult; 85% do not build reg reform into forecasts; 50% say reg reform raise GDP growth estimates 0-20 bps)




Source: SIFMA Economic Advisory Roundtable
Note: Reg = regulatory; est = estimates

## SIFMA Economic Advisory Roundtable Forecasts

### Economic Indicators – Annual

| *(%, unless indicated)* | 2017 | 2018 | 2019 | 2020E | 2021E |
|---|---|---|---|---|---|
| Real GDP (4Q/4Q) | 2.8 | 2.5 | 2.3 | -5.5 | 4.7 |
| Real Personal Consumption (4Q/4Q) | 2.9 | 2.6 | 2.7 | -6.3 | 4.7 |
| Nonresidential Fixed Investment (4Q/4Q) | 5.4 | 5.9 | -0.4 | -8.8 | 4.5 |
| Residential Fixed Investment (4Q/4Q) | 4.2 | -4.4 | 1.7 | -1.3 | 4.9 |
| Real Federal Government Spending (4Q/4Q) | 1.7 | 2.7 | 4.3 | 4 | 2.1 |
| Real State and Local Government Spending (4Q/4Q) | 0.4 | 0.9 | 2.2 | 0.7 | 1.2 |
| Non-Farm Payroll Employment (K; avg. monthly change) | 176 | 193 | 178 | -1,106 | 430 |
| Unemployment Rate (4Q average) | 4.1 | 3.8 | 3.5 | 9.5 | 7.2 |
| Average Hourly earnings (4Q/4Q) | 2.5 | 3.3 | 3.2 | 2.65 | 1.9 |
| Real Disposable Income (4Q/4Q) | 3.4 | 3.9 | 2.4 | -1.7 | 2 |
| Personal Savings Rate (annual average) | 7.0 | 7.7 | 7.9 | 11.5 | 9.13 |
| CPI (4Q/4Q) | 2.1 | 2.2 | 2.0 | 0.2 | 1.8 |
| Core CPI (4Q/4Q) | 1.8 | 2.2 | 2.3 | 0.9 | 1.6 |
| PCE deflator (4Q/4Q) | 1.8 | 1.9 | 1.4 | 0.3 | 1.6 |
| Core PCE deflator (4Q/4Q) | 1.7 | 1.9 | 1.6 | 0.9 | 1.4 |
| Industrial Production Index (annual % change) | 2.3 | 4.0 | 0.9 | -9.85 | 5 |
| Housing Starts (K, annual average) | 1,209 | 1,250 | 1,298 | 1,170 | 1,283 |
| S&P Corelogic Case-Shiller Home Prices (Y/Y) | 5.8 | 5.8 | 3.5 | 1 | 2.65 |
| New Home Sales (K, annual average) | 617 | 615 | 684 | 637 | 660 |
| Motor Vehicle Sales (M, annual average) | 17.1 | 17.2 | 16.9 | 13 | 15.3 |
| Federal Budget ($B, FY) | 529 | -779 | -984 | -3,775 | -2,000 |
| Current Account Deficit ($B) | 439.6 | 491 | 498.3 | 415.5 | 441.5 |

### Economic Indicators – Quarterly

| *(%)* | 3Q19 | 4Q19 | 1Q20 | 2Q20E | 3Q20E | 4Q20E | 1Q21E | 2Q21E |
|---|---|---|---|---|---|---|---|---|
| Real GDP (Q/Q, annualized) | 2.1 | 2.1 | -5.0 | -33.5 | 15.3 | 7.45 | 5.9 | 4.85 |
| Real Personal Consumption (Q/Q, annualized) | 3.1 | 1.8 | -6.8 | -41.4 | 19.4 | 9 | 5.3 | 5 |
| Nonresidential Fixed Investment (Q/Q, annualized) | -2.3 | -2.5 | -7.9 | -30 | -0.01 | 3.5 | 5 | 5.1 |
| Residential Fixed Investment (Q/Q, annualized) | 4.6 | 6.5 | 18.5 | -30.1 | 4.2 | 6.5 | 6.5 | 5 |
| CPI (Y/Y) | 1.8 | 2.0 | 2.1 | 0.4 | 0.33 | 0.2 | 0.35 | 1.8 |
| Core CPI (Y/Y) | 2.1 | 2.1 | 2.3 | 1.4 | 1.05 | 0.9 | 0.8 | 1.5 |
| PCE Deflator (Y/Y) | 1.4 | 1.4 | 1.3 | 0.5 | 0.3 | 0.3 | 0.45 | 1.55 |
| Core PCE Deflator (Y/Y) | 1.7 | 1.6 | 1.6 | 1.2 | 0.9 | 0.95 | 0.95 | 1.3 |

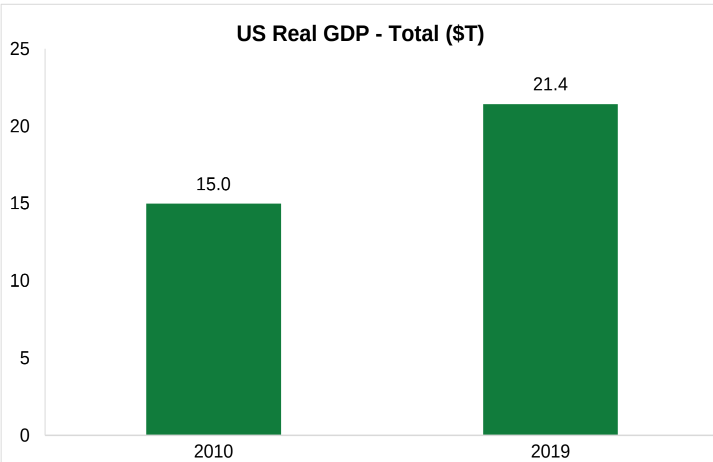
### Interest Rates (Monthly Average)

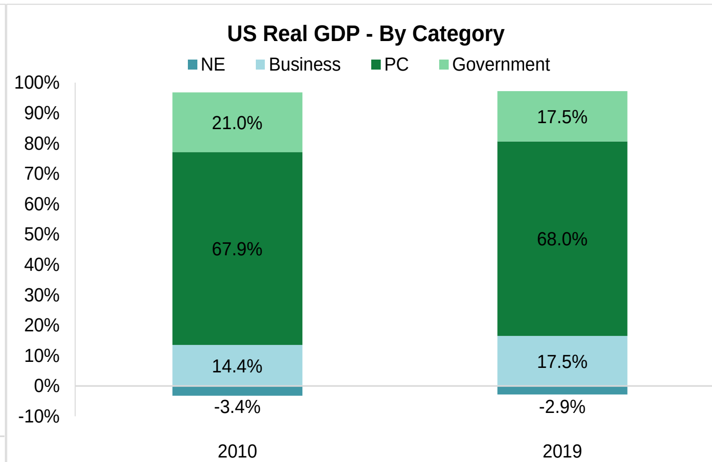
| *(%)* | Sep'19 | Dec'19 | Mar'20 | Jun'20E | Sep'20E | Dec'20E | Mar'21E | Jun'21E |
|---|---|---|---|---|---|---|---|---|
| Federal Funds Target Rate (midpoint) | 1.875 | 1.625 | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 |
| 2-Year UST Yield | 1.65 | 1.61 | 0.45 | 0.2 | 0.25 | 0.35 | 0.38 | 0.35 |
| 10-Year UST Yield | 1.70 | 1.86 | 0.87 | 0.68 | 0.725 | 0.8 | 0.875 | 1.01 |
| 30-Year Fixed Mortgage Rate | 3.61 | 3.72 | 3.45 | 3.26 | 3.21 | 3.03 | 3.01 | 3.04 |

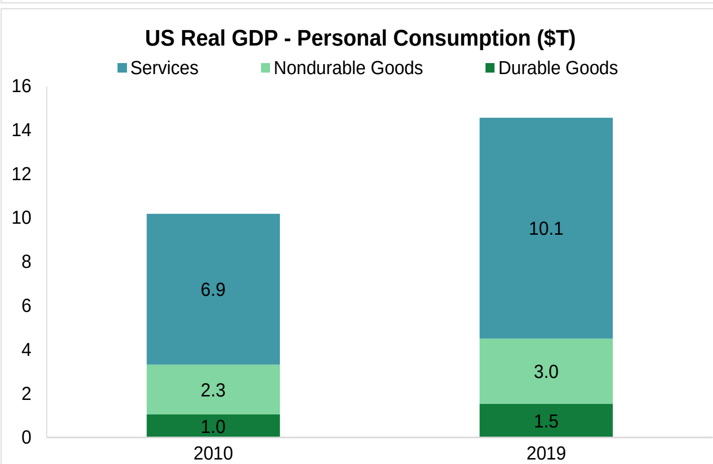
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable

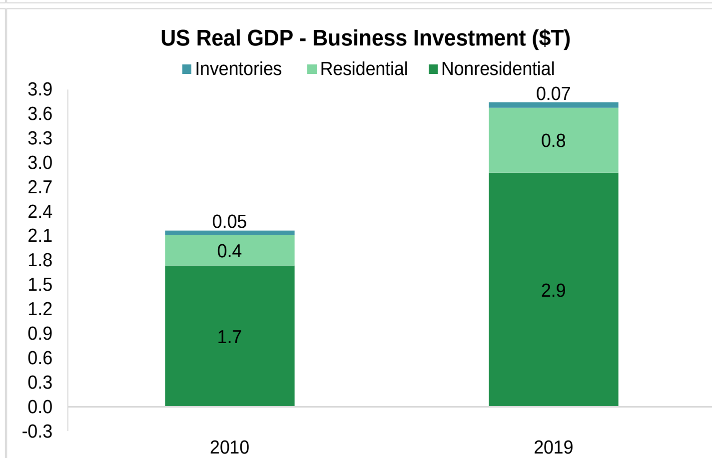
# Reference Guide: Economic Landscape

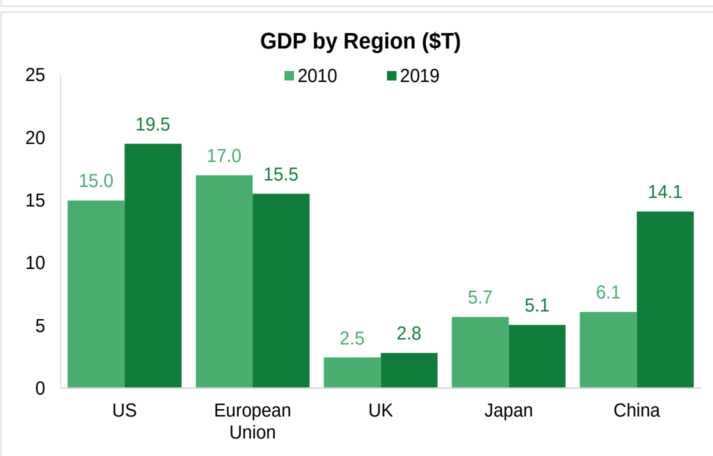
## US GDP Growth and Comparison Across Regions

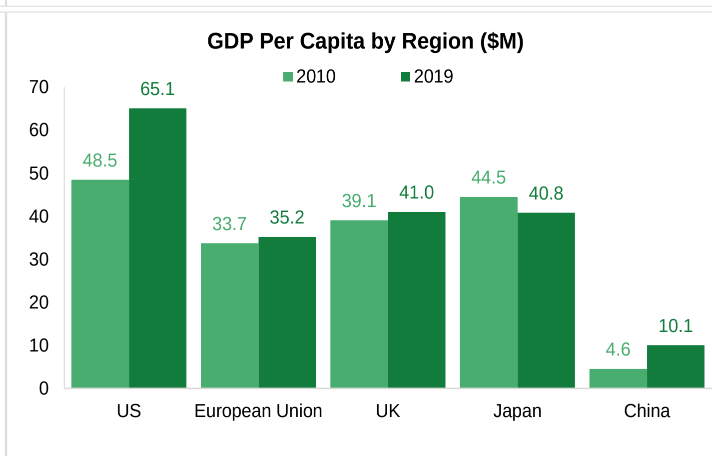


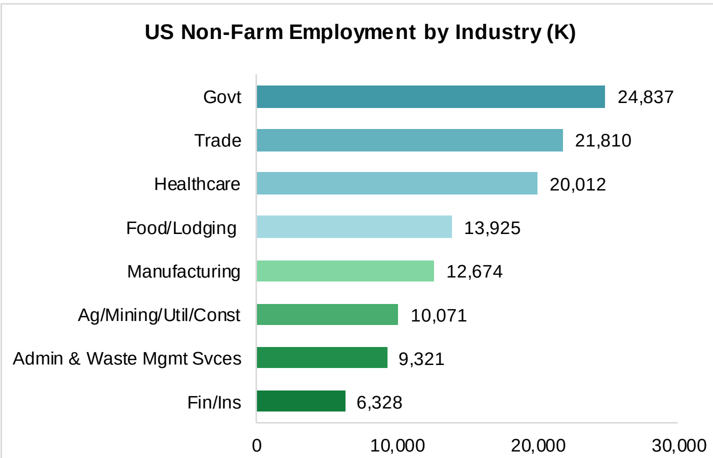



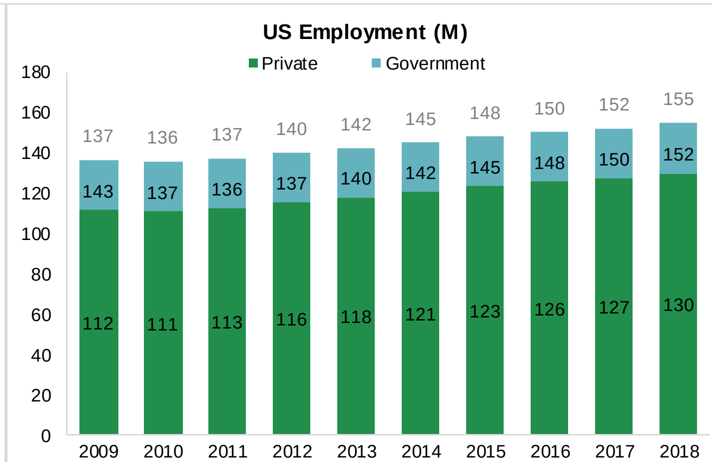



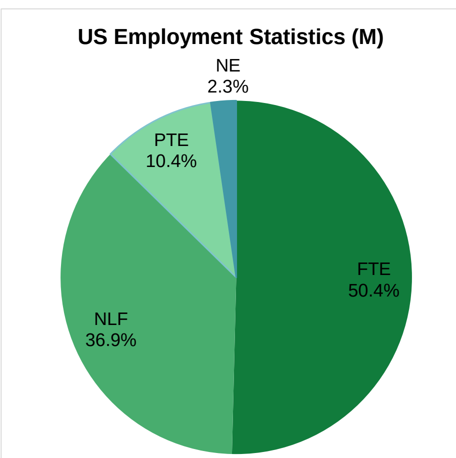

Source: Bureau of Economic Analysis, World Bank, OECD, Bloomberg

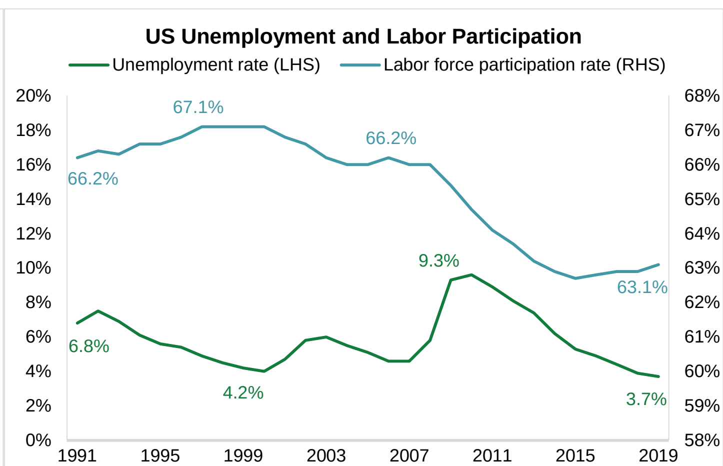
Note: NE=net expenditures, Business=business investment, Government=govt consumption & investment, PC=personal consumption expenditure

## US Employment Landscape




Source: Bureau of Economic Analysis (as of 2018), Bureau of Labor Statistics
Note: NE = not employed (unemployed), FTE = full time employment, NLF = not in labor force, PTE = part time employment. Employment statistics based on civilian population 16 years or over

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