

Recovering from Contagion

Epidemiology, Elections, and Economics

December 2020

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NORTHERN TRUST

HOME SWEET HOME?

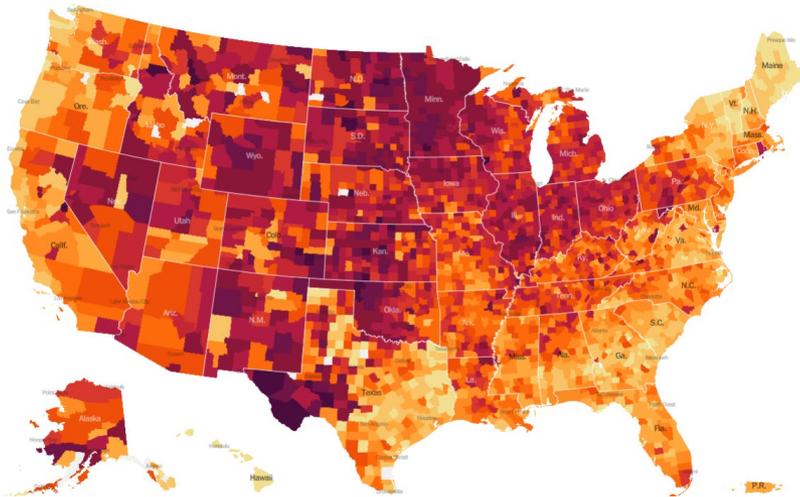
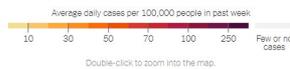
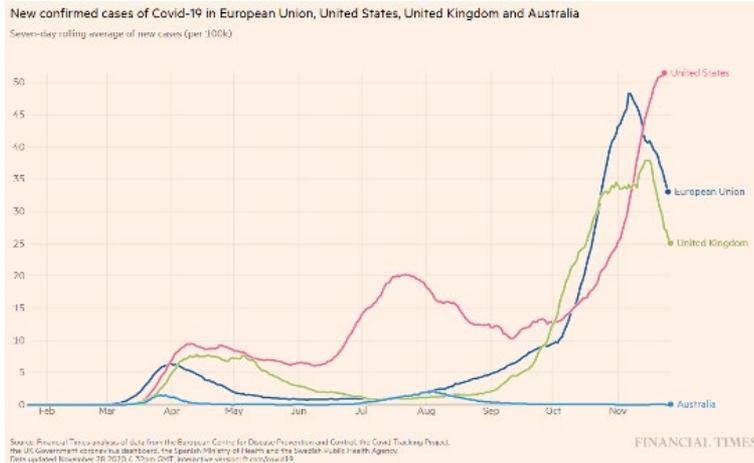


*"I can't remember—do I work at home
or do I live at work?"*



"O.K., let's find out if we like each other."

COVID-19 BREAKS CONTAINMENT



Key Messages

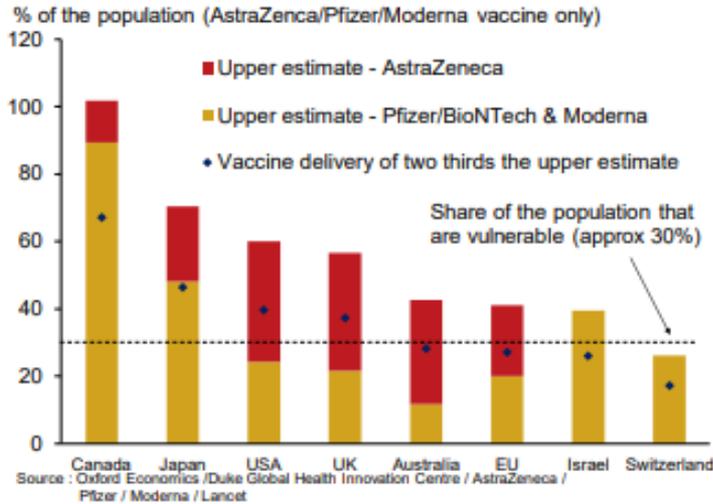
- **Case counts rose rapidly as autumn began in the U.S., U.K. and several western European countries**
 - A number of U.S. states have paused or rolled back reopening
 - New restrictions in Britain, France, and Italy
 - Colder weather, more indoor gathering and holiday celebrations will raise the risk of contagion
- **Lockdowns have failed to stop the spread of the virus**
 - Strict measures have immense economic costs
 - Respecting medical capacity is a central consideration
- **Societies will have to learn to live with the virus for a while longer**

Sources: New York Times, Financial Times chart data as of November, 2020

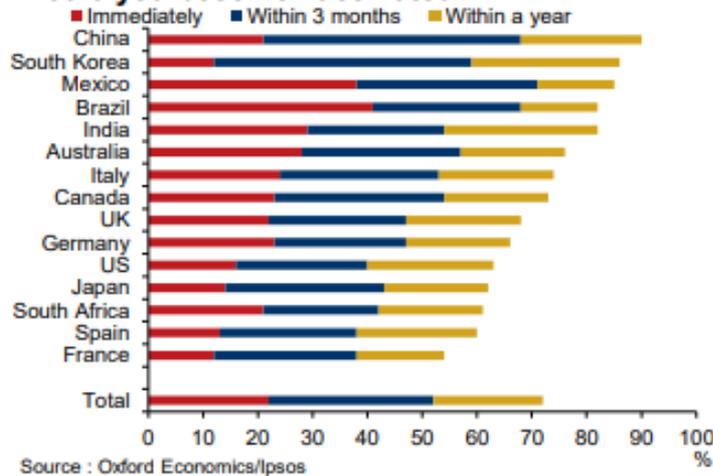
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VACCINOMICS

Possible scale of vaccinations by end Q1 2021



From the time a vaccine is available, when would you become vaccinated?



Key Messages

- Progress on vaccines and testing is occurring with unprecedented speed
 - Two products very close to approval, with a third to follow shortly after
 - Production began some time ago
- Logistics surrounding inoculation will be challenging
 - It will take considerable time to manufacture enough doses to cover populations
 - National investments and locus of manufacture will drive allocation
 - Distribution and tracking will require careful coordination
 - There is some hesitation to be among the first wave
- Vaccination could prove to be a kind of economic passport

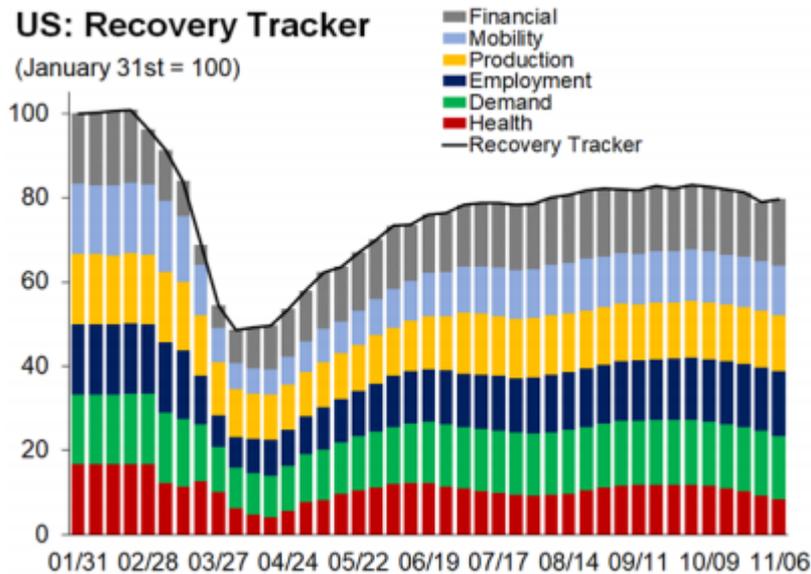
Sources: Oxford Economics. Chart data as of November, 2020

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THE STATE OF THE RECOVERY

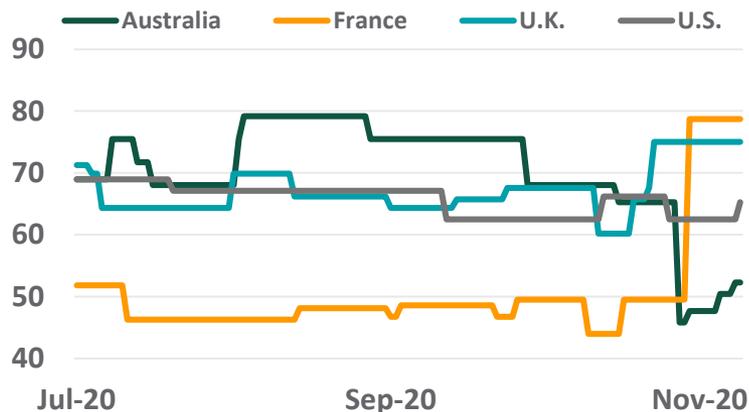
US: Recovery Tracker

(January 31st = 100)



Lockdown Stringency Index

(January 2020 = 0)



Key Messages

- The recession was record-setting, but recovery is underway
 - Reopening in the late second quarter arrested economic decline
 - Early gains retraced a good portion of the ground lost in the spring
- Momentum has been slowing
 - Renewed COVID outbreaks; slower reopening/new lockdowns
 - The benefit of policy aid is waning
 - Some industries remain deeply depressed (travel, hospitality, entertainment)
 - Activity is still well below levels of last December
- **More fiscal support will almost certainly be required**

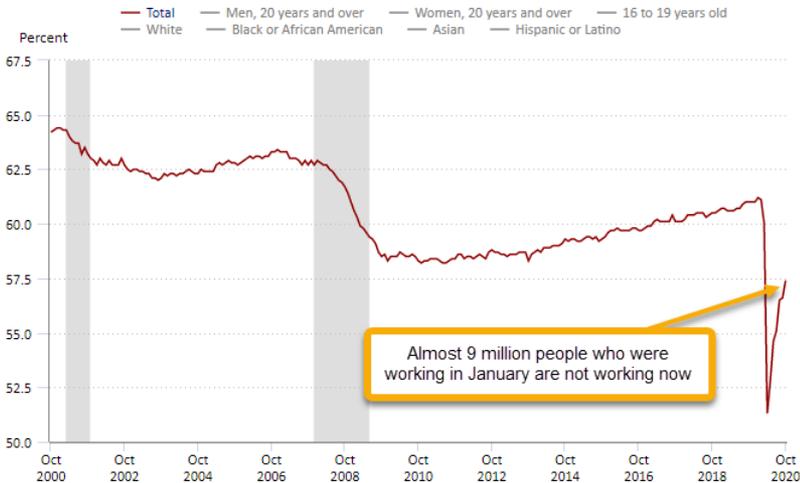
Sources: University of Oxford, Oxford Economics. Chart data as of November 2020.

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U.S. JOB MARKET: HEALTHIER, BUT NOT HEALTHY

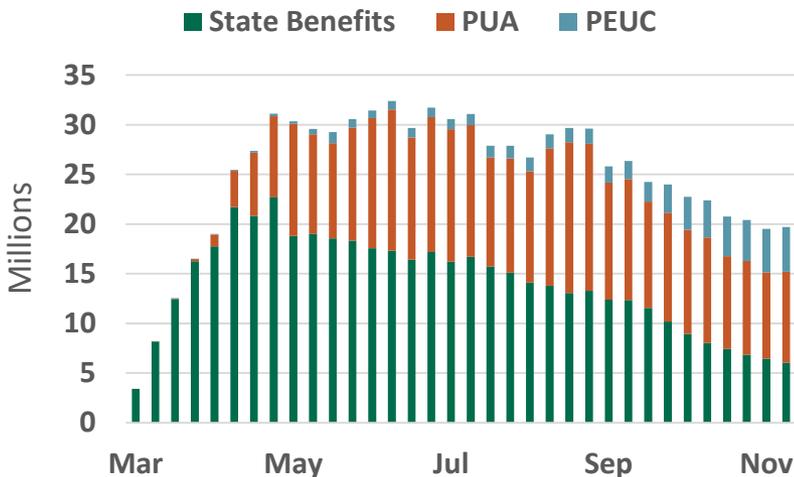
Employment–population ratio, seasonally adjusted

Click and drag within the chart to zoom in on time periods



Almost 9 million people who were working in January are not working now

Recipients of Unemployment Insurance



Key Messages

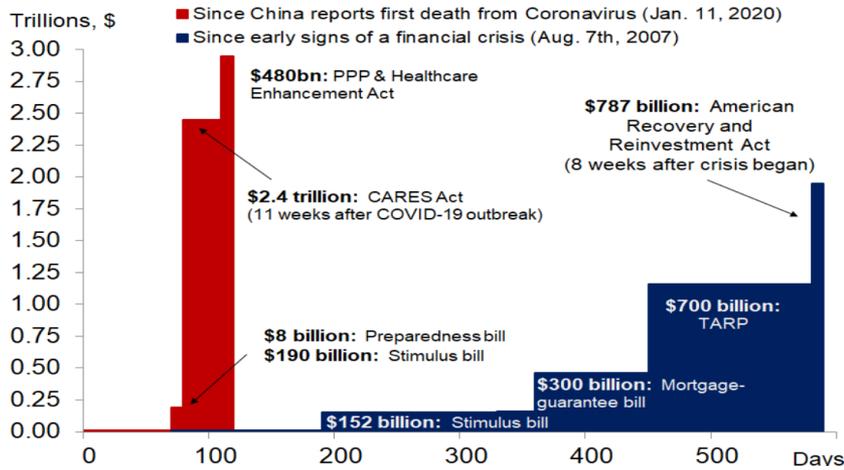
- The U.S. has regained about two-thirds of the jobs lost at the peak of the pandemic
 - Unemployment remains elevated; labor force participation remains depressed
 - The rolls of those drawing jobless benefits remains high
 - More permanent displacement
- The expiration of support for small and large firms may initiate new layoffs
- The loss of supplemental benefits is an issue
 - Spending power has diminished
 - Rent and mortgage payments affected
 - Little evidence of workers declining old jobs
- **Some lasting “scarring” is likely**

Sources: BLS, Haver Analytics. Chart data as of November 2020

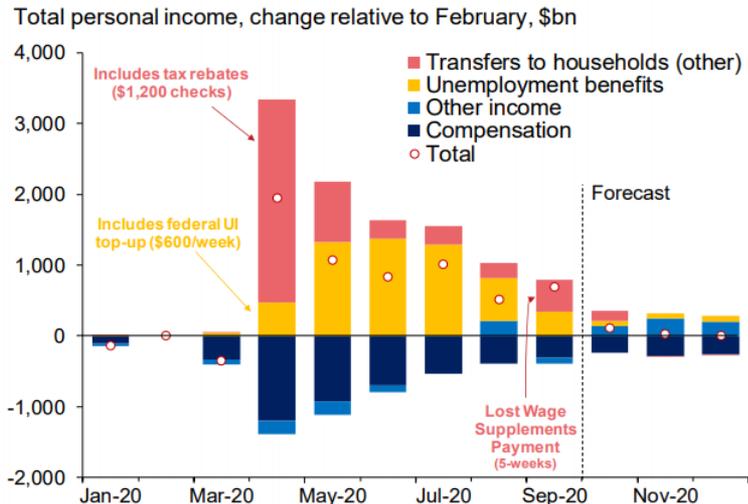
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POLICY VERSUS THE PANDEMIC

US: Funds authorized by Congress



US: The income risk from expiring fiscal aid



Key Messages

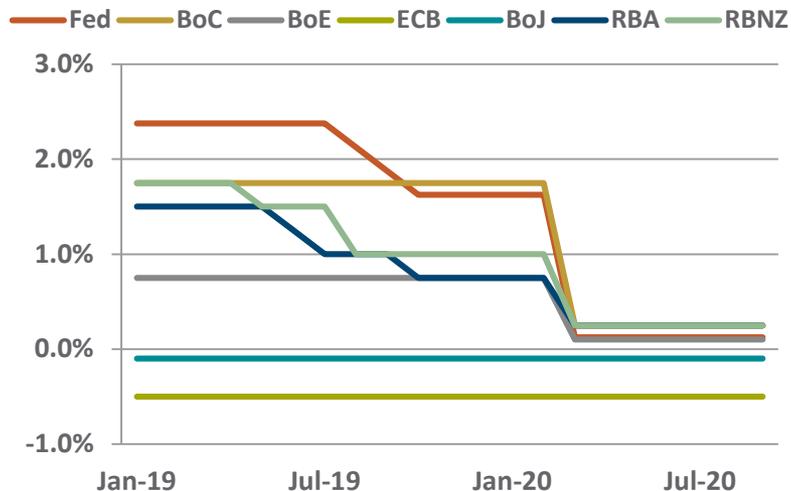
- Initial responses were impressive for their size and speed
 - Focus on support for the jobless, small businesses, and industries most impaired by the pandemic
 - Combatting a massive demand shock
 - Getting money into the economy quickly was stressed over detailed controls
- Some supplemental measures will be required
 - The CARES Act assumed a 4 to 6 month recovery window
 - Several key programs have expired, others will follow soon
- **Government debt levels are rising...but not taking action would have been an economic and fiscal disaster**

Sources: Oxford Economics, CBO. Information as of November 2020.

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MONETARY POLICY: AT THE EDGE OF ITS EFFECTIVENESS

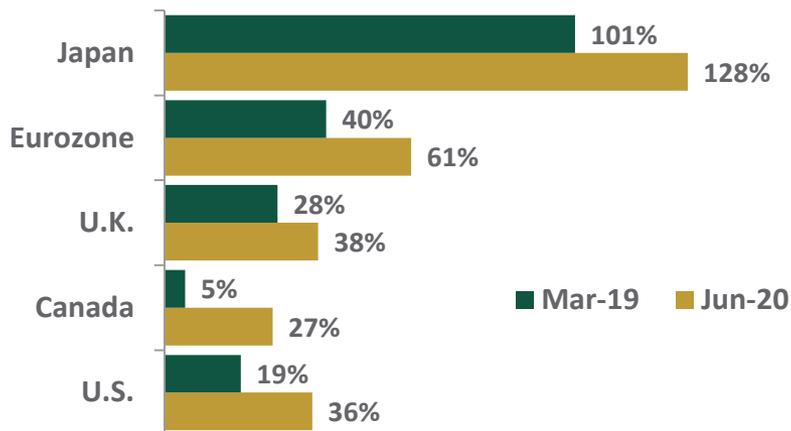
Central Bank Deposit Rates



Key Messages

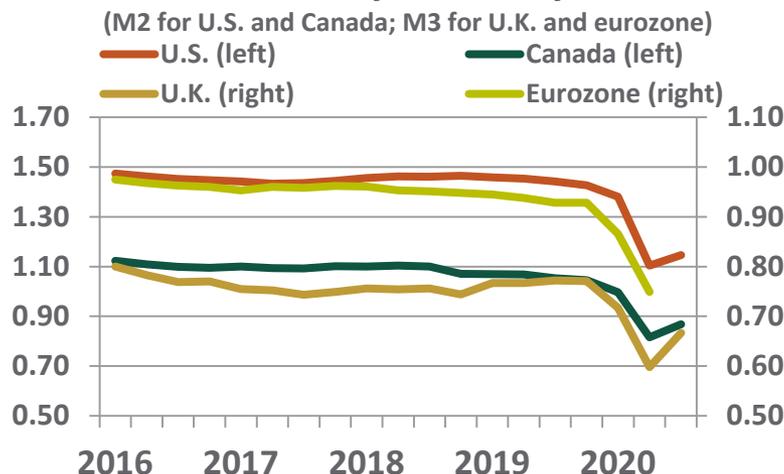
- Interest rates around the world are going to be low/negative for a long time
 - New negative rate settings unlikely
 - Promises to keep rates low for long have limited incremental effect
 - Lending and liquidity programs are good at stabilizing markets, but limited in promoting economic growth
 - Strong signaling value, but limited impact on lending
 - Market channels are wide open; bank channels are restricted
- **Additional quantitative easing in support of new fiscal programs may be the best way for central banks to contribute**

Central Bank Assets As a % of Nominal GDP



IS INFLATION RISK RISING?

Velocity of Money



Advanced economies: Household savings rate



Key Messages

- Rapid increases in the money supply across countries have raised inflation concerns
- Money is not circulating normally through economies
 - Credit standards have tightened, and credit extension has slowed
 - Banks have increased deposits with their central banks
 - Households have increased precautionary saving where they can
 - Money velocity has plunged
- Prior to the crisis, inflation was stubbornly low
- The pandemic may reinforce deflationary forces (e-commerce, process automation)
- **The Fed may struggle to meet its updated policy targets**

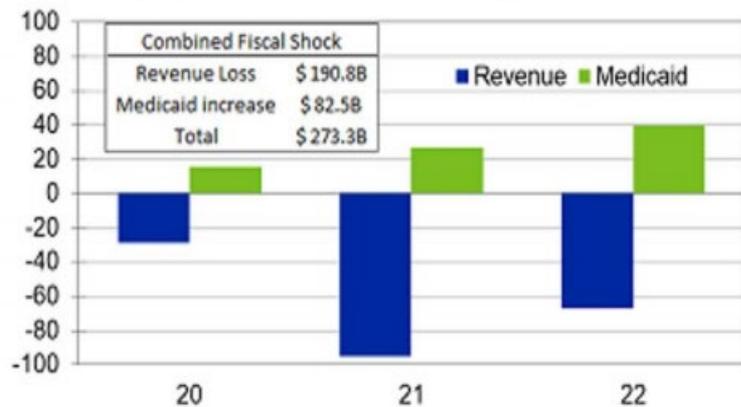
Sources: Haver Analytics, Oxford Economics. Data as of September 2020.

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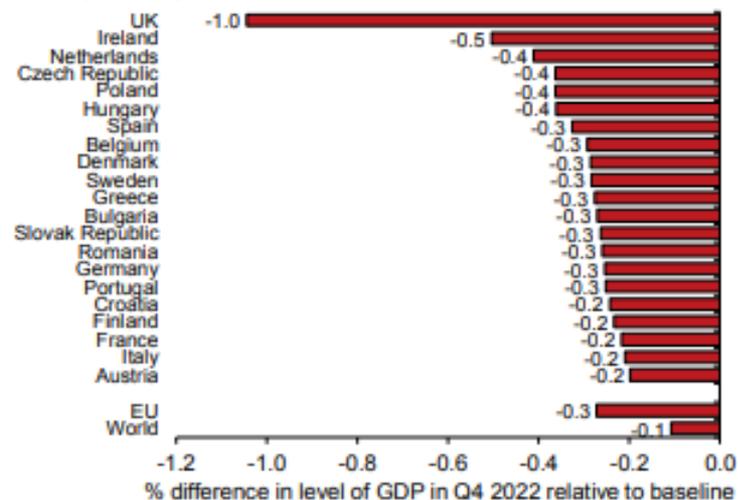
RISKS TO THE OUTLOOK

Baseline Outlook

50-state aggregate projections, state fiscal yr, \$ bil



Europe: Impact on GDP of no-trade-deal Brexit



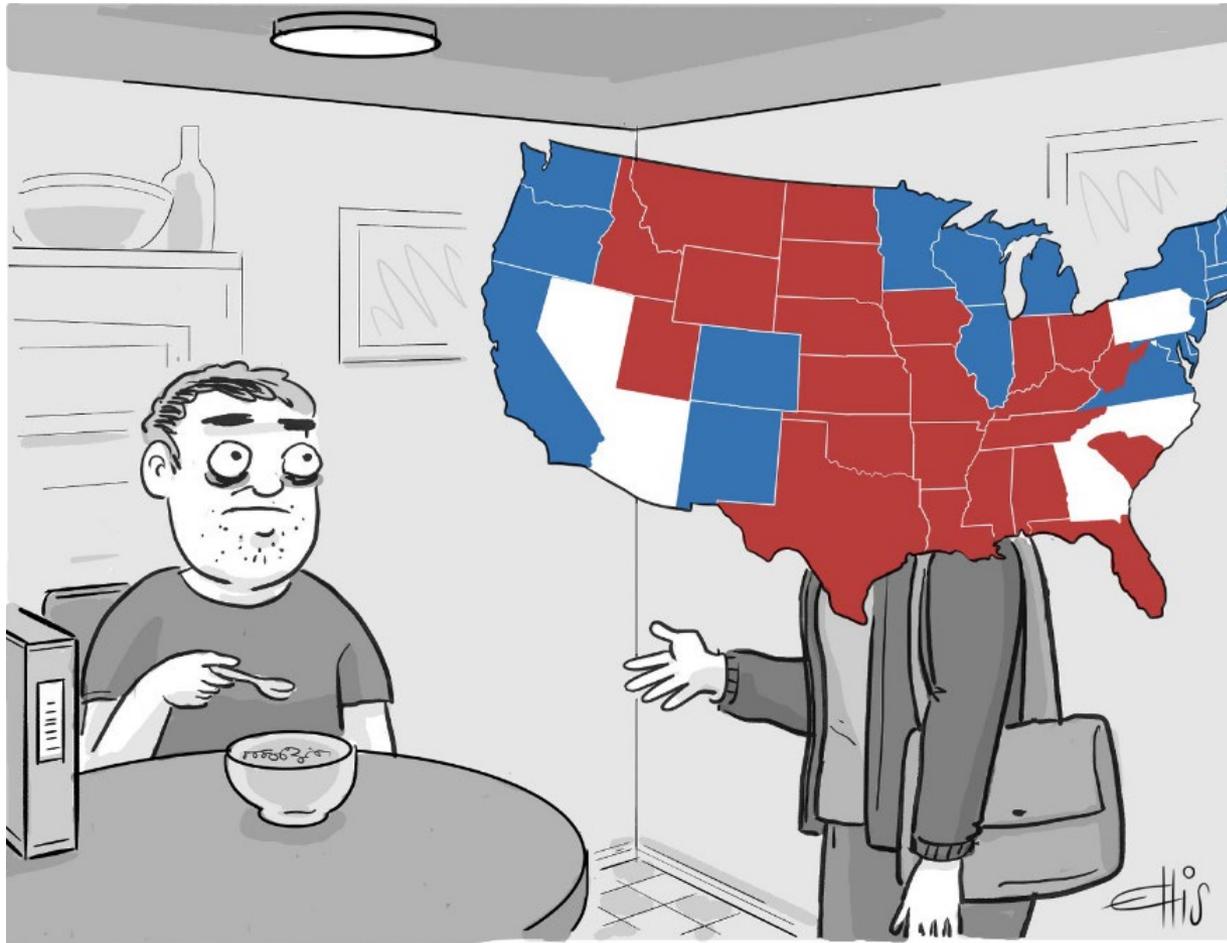
Key Messages

- **State and local governments** face significant revenue shortfalls
 - Revenues weighted toward sales taxes
 - Demands on local services (medical, educational) are heavy
 - Pension problems are coming to the surface
 - Account for one of eight U.S. jobs and 13% of U.S. GDP
- **Brexit** goes down to the wire...again
 - Threats and brinkmanship from the U.K.
 - State support for national champions and fishing rights are sticking points
 - Ireland is caught in the middle
 - Little time for preparation

Sources: Moody's Analytics, Oxford Economics. Information as of October 2020.

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THE COUNTING TOOK A WHILE...



“I’m going to the store. Did you hear me? I said I’m going to—Why are you looking at me like that?”

U.S. ELECTION RESULTS

Presidential Results

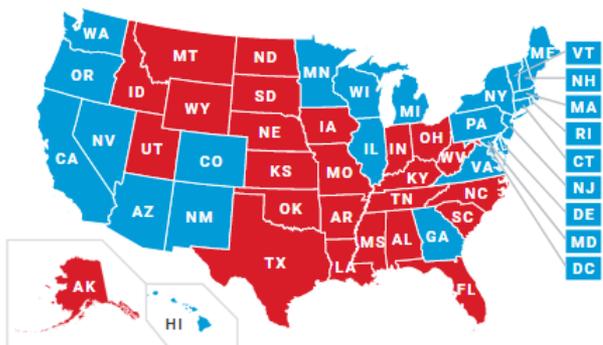
Joe Biden

 306

270 to win

Donald Trump

232 



Senate Results

48 DEMOCRATS

50

REPUBLICANS 50

35 Not Up For Election

Gained 2 Seats, Lost 1 Seat

30 Not Up For Election

Gained 1 Seat, Lost 2 Seats

House Results

222 DEMOCRATS

218 for Control of House

REPUBLICANS 210

Gained 3 Seats, Lost 12 Seats

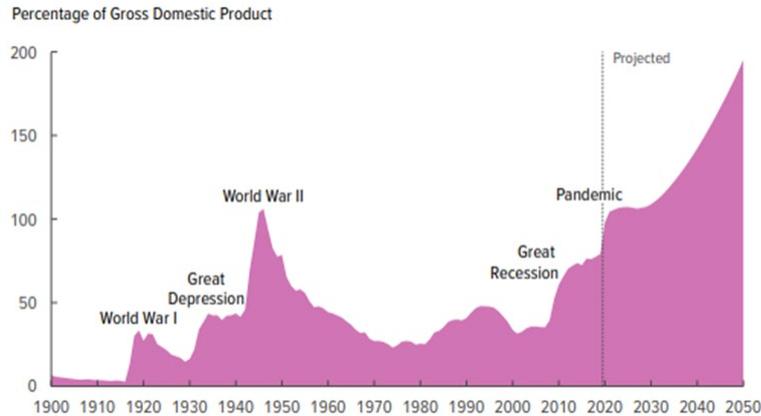
Gained 13 Seats, Lost 3 Seats

Key Messages

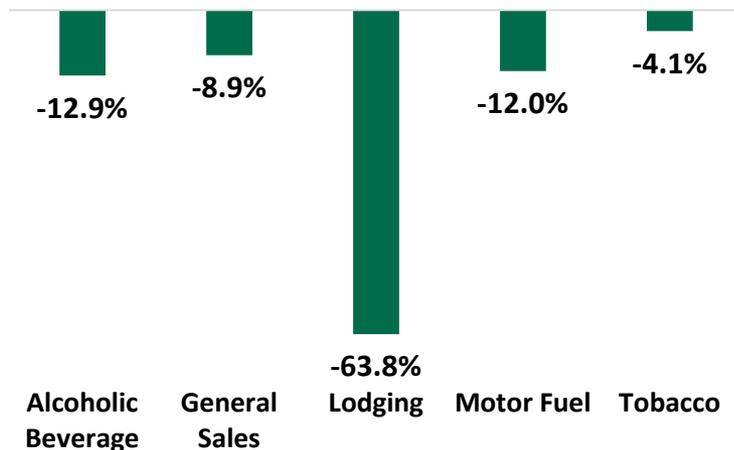
- Largest turnout in more than 100 years
- Despite logistical hurdles, the process generally worked well
- Senate control will depend on two runoffs in Georgia on January 5
- The government will remain divided, potentially more so than before
- Neither party is perfectly aligned
 - Progressives have made inroads among Democrats
 - Without Trump, Republican divisions in Congress may resurface
 - Opportunities for compromise exist, but may not be embraced
- **Little major legislative movement likely**

U.S. ELECTION ISSUE: FISCAL POLICY

U.S. National Debt



U.S. State Sales Tax Collections: April-August 2019 vs. 2020



Sources: Congressional Budget Office, Census Bureau. Data as of October 2020.

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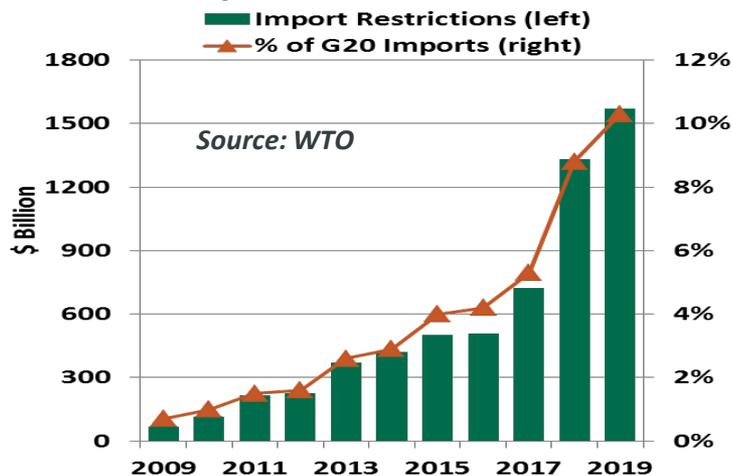
NTAC:3NS-20

Key Messages

- Debt levels were escalating rapidly prior to the pandemic
 - 2017 tax cuts have not lifted growth
- Structural forces will add substantially to the debt over time
 - Demographics add to retirement and medical costs
 - Interest costs become a larger portion of Federal spending
- Odds for a large, far-reaching stimulus package have waned
 - Movement not expected during “lame duck” session
 - State and local government aid is a point of contention
- Investment in infrastructure (including broadband) has bipartisan support
- **Gridlock is not good for the national debt**

U.S. ELECTION ISSUE: TRADE

G20 Import Restrictive Measures



Key Messages

- Globalization has been in retreat
 - The 2008 crisis led countries to look inward
 - The pandemic has highlighted uncomfortable dependencies
 - “Economic security” is leading a push to shorter supply chains
 - China vs. U.S. is the main event, but there are others
 - The Brexit deadline is fast approaching
 - U.S. trade policy is unlikely to change
 - Democrats have traditionally been more skeptical about trade
 - Style may change, but tone likely won't
- **The drive for “near-shoring” will likely continue**

WORLD MERCHANDISE TRADE VOLUME

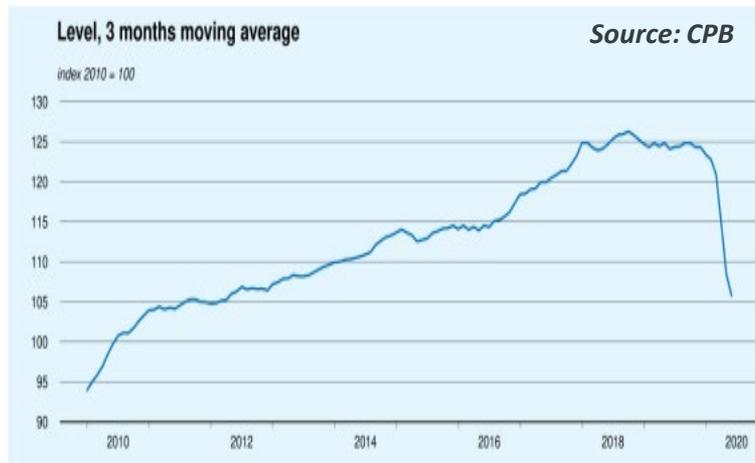
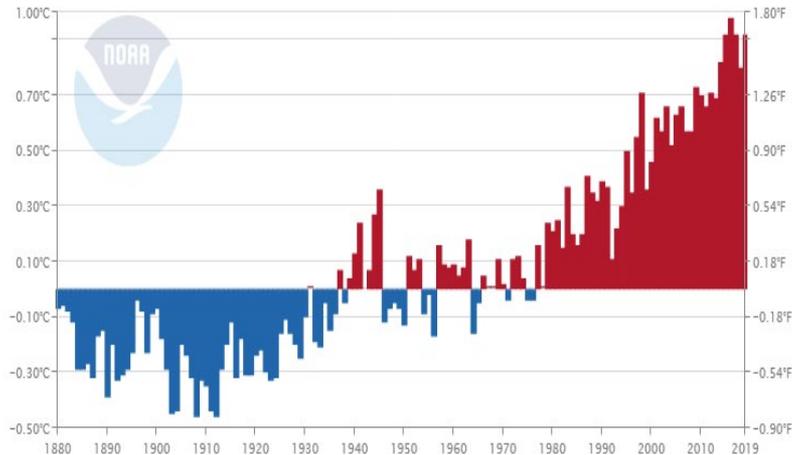


Chart data as of 09/2020.

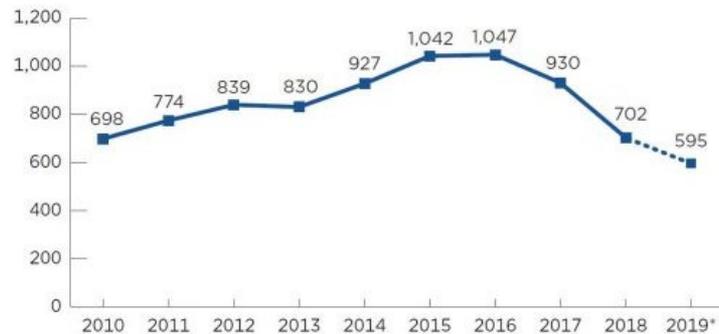
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U.S. ELECTION ISSUES: REGULATION

Global Land and Ocean
August Temperature Anomalies



Net Migration Between the United States and Abroad:
2010 to 2019
(In thousands)



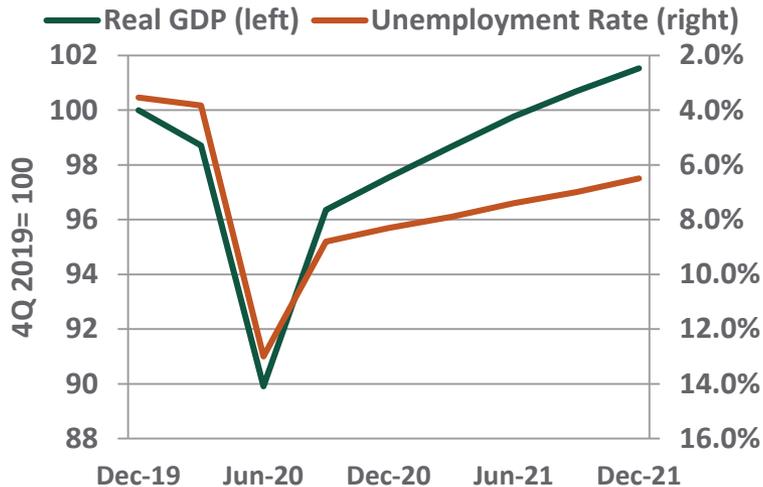
* Data shown for 2019 are projections.
Note: Year represents the annual estimates period ending on June 30. Released data will report 2010 as a quarter year (April 1, 2010–June 30, 2010) instead of a full year.
Source: U.S. Census Bureau, Vintage 2019 Population Estimates.

Key Messages

- The Democratic platform called for measures to address climate change
 - Credits for green investment
 - New curbs on carbon emissions
 - Some steps can be taken through the use of executive orders
 - Used extensively by the current Administration
 - Reconnection with Paris Climate Accord likely
 - Immigration remains a thorny issue
 - Economic angle: labor force growth, innovation
 - Congress has been close to reform on several occasions
- **Cabinet appointments, and confirmation hearings, will bear close watching**

THE OUTLOOK

Current U.S. Forecast



Global Real GDP Forecasts

	2020	2021
World	-4.5%	5.0%
Canada	-3.8%	3.9%
U.K.	-7.2%	4.9%
Eurozone	-6.9%	4.9%
Japan	-4.3%	3.1%
China	5.0%	5.1%

Sources: Northern Trust, OECD (for World GDP)

Key Messages

- Output won't fully recover until the middle of next year
 - Employment will take much longer
 - Large sectors of the economy (entertainment, travel, office real estate) may never return to former norms
 - Some long term consequences of COVID-19
 - More work-from-home; migration from cities?
 - Accelerated adoption of technology
 - Borders will matter more
- **The pandemic will almost certainly cause paradigm shifts**

BIOGRAPHY



Carl R. Tannenbaum
Chief Economist
Northern Trust

Carl Tannenbaum is the Chief Economist for The Northern Trust. In this role, Mr. Tannenbaum briefs clients and colleagues on the economy and business conditions, prepares the bank's official economic outlook and participates in forecast surveys. He is a member of the bank's investment policy committee, its capital committee, and its asset/liability management committee.

Mr. Tannenbaum publishes weekly commentaries and is frequently interviewed by media outlets such as The Wall Street Journal, Bloomberg, and Reuters.

Prior to joining Northern Trust, Mr. Tannenbaum spent four years at the Federal Reserve, where he led the risk section. He was deeply involved in the central bank's response to the 2008 financial crisis, helped to create and conduct its stress testing program, and advised senior Federal Reserve leaders on developments in banking and the financial markets.

Mr. Tannenbaum began his career in banking at LaSalle Bank/ABN AMRO, a global banking organization with \$1 trillion in total assets. He served for more than 20 years there as the organization's Chief Economist and Head of Balance Sheet Management.

Mr. Tannenbaum is the current Chairman of the American Bankers Association's Economic Advisory Committee and is a past Chairman of the National Association for Business Economics, the Conference of Business Economists, and the North American Asset/Liability Management Association.

Mr. Tannenbaum also serves on the Board of Working in the Schools (WITS), a literacy organization that supports the Chicago Public Schools.

Mr. Tannenbaum holds an M.B.A. and a B.A. in finance and economics from the University of Chicago.

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