



US 2021 Economics Outlook: Resilient, and Self-Sustaining

Ellen Zentner

Economist

Ellen.Zentner@morganstanley.com

+1 212 296-4882

Robert Rosener

Economist

Robert.Rosener@morganstanley.com

+1 212 296-5614

Sarah Wolfe

Economist

Sarah.Wolfe@morganstanley.com

+1 212 761-0857

For important disclosures, refer to the Disclosure Section, located at the end of this report.

All information as of November 15, 2020, unless otherwise stated.

Morgan Stanley & Co. LLC

See [2021 US Economic Outlook: Resilient, and Self-Sustaining \(15 Nov 2020\)](#)

Excel Forecast Table: [2021 US Economic Outlook: Full Forecast Table \(15 Nov 2020\)](#)

Base, Bear and Bull Case

Base Case: The pace of recovery picks up steam after a difficult winter as it returns to normalization. We expect the rising threat of Covid-19 to dampen growth through the first months of 2021, followed by further fiscal support from the prospective new administration in reaction to the rise in hospitalizations. Together with broad dissemination of a vaccine by mid-year, **we have lifted our 2021 GDP growth forecast to 5.9%Y, and initiate 2022 GDP growth at 4.1%Y.**

In this scenario, the Fed begins to taper its balance sheet purchases in January 2022, with the first rate hike in 3Q23.

Bear Case: Downside risks are dominated by Covid-19, and particularly if broader-than-expected shutdowns over the winter and delayed vaccine come in the absence of further fiscal stimulus. In this scenario, a more drawn-out recovery leads to longer stints of unemployment and greater permanent job loss. Near-term growth is more recessionary with GDP growing by just 3.1%Y in 2021 and 3.0%Y in 2022.

In this scenario, policy is on hold for even longer. A response to any material sustained tightening in financial conditions include expanding the size and/or duration of asset purchases, and greater use of/introducing new 13(3) facilities.

Bull Case: A less severe second wave and earlier broad-based dissemination of the vaccine, as well as Democrats completing a larger portion of their wish list are key drivers of upside risk that could lead to materially higher GDP growth.

In this scenario, the path of rate increases remain shallow, but the interest rate lift-off comes earlier beginning in mid-2023.

Forecast Summary

(4Q/4Q % Change)	2019	New Forecast		
		2020	2021	2022
Real GDP	2.3	-2.3	6.0	2.7
Final Sales	2.8	-2.5	5.4	2.9
Final Domestic Demand	2.4	-1.8	5.5	2.9
PCE	2.5	-2.4	5.6	3.0
Business Fixed Investment	1.4	-3.9	6.9	3.7
Residential Fixed Investment	1.6	8.3	11.0	4.2
Exports	0.4	-13.8	4.8	4.4
Imports	-1.9	-6.7	6.5	4.2
Government	3.0	-0.4	2.9	1.7
CPI	2.0	1.0	2.0	2.6
Core PCE	1.6	1.6	1.9	2.2
Unemployment Rate*	3.5	6.7	5.1	4.0

*Unemployment rate refers to 4Q average in the year indicated.

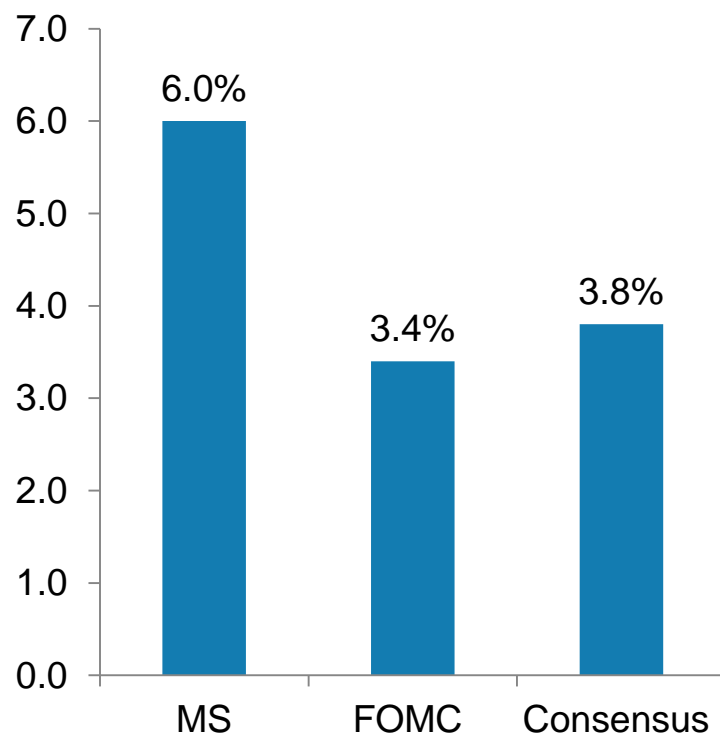
Note: **Excel Full Forecast Table: [2021 US Economic Outlook: Full Forecast Table \(15 Nov 2020\)](#)**

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Morgan Stanley Research forecasts

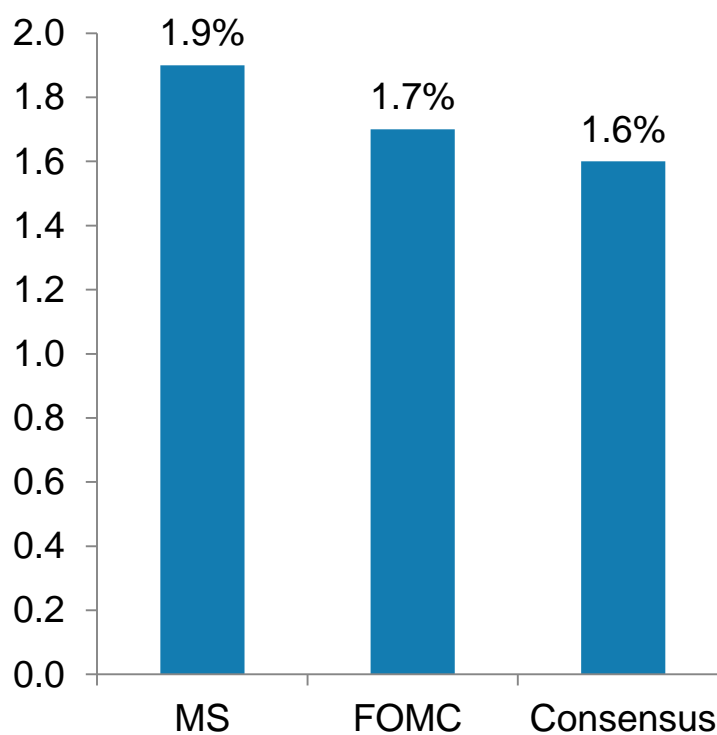
How We Compare

In 2021, on a 4Q/4Q basis, we are above consensus and the FOMC for GDP and core PCE, and below consensus for the unemployment rate.

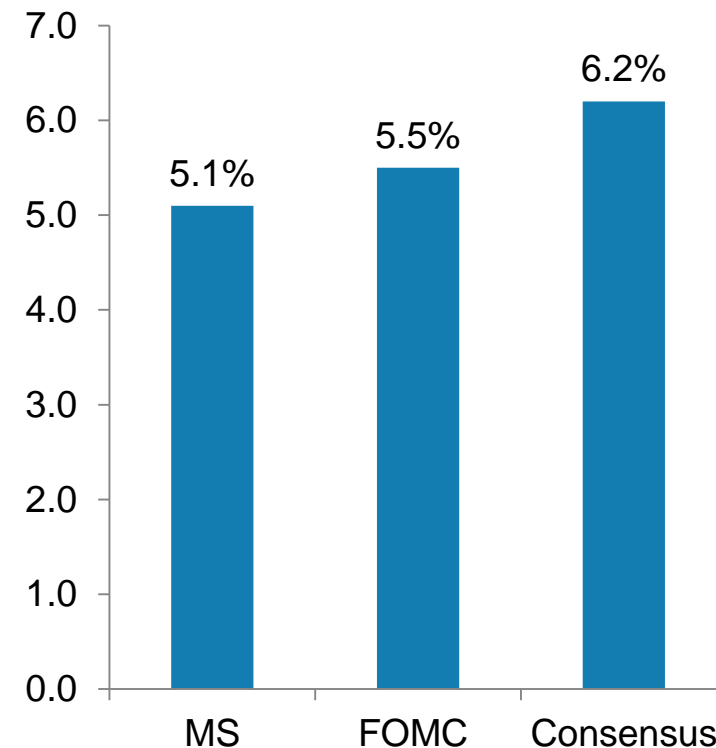
Real GDP Growth (4Q/4Q) 2021 (%)



Core PCE Inflation (4Q/4Q) 2021 (%)



Unemployment Rate 4Q21 (%)

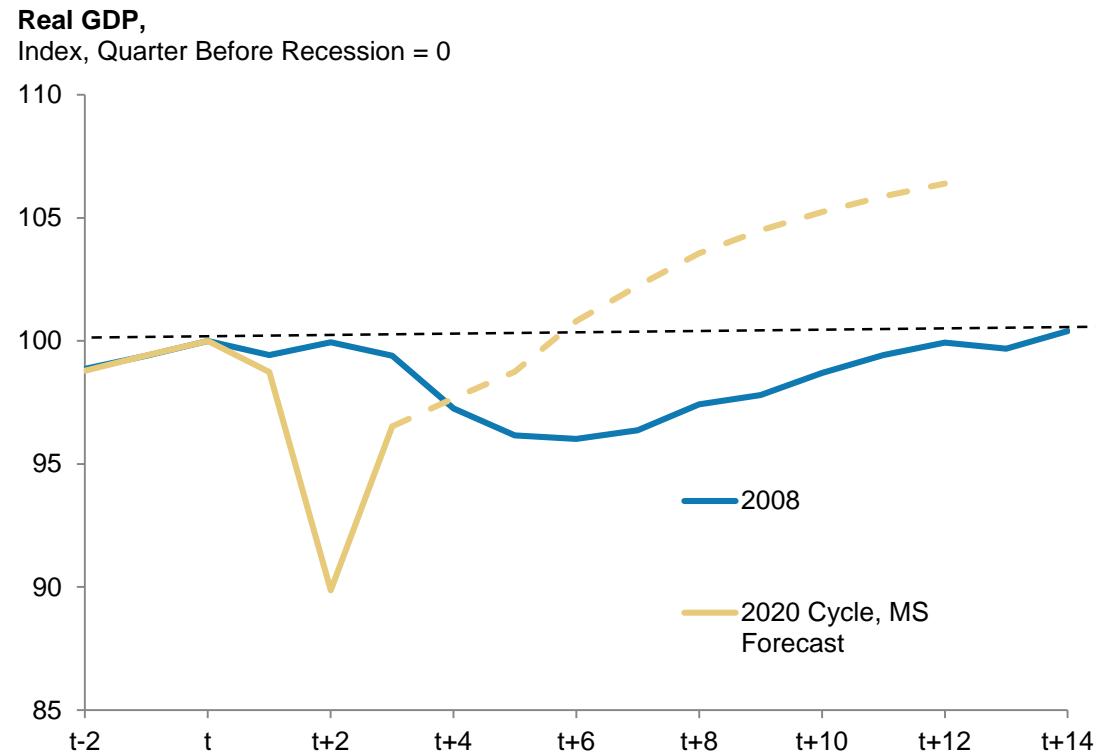


Note: FOMC Projection is from September 2020 Summary of Economic Projections, November Blue Chip survey.
 Source: Blue Chip, Federal Reserve Board, Morgan Stanley Research forecasts

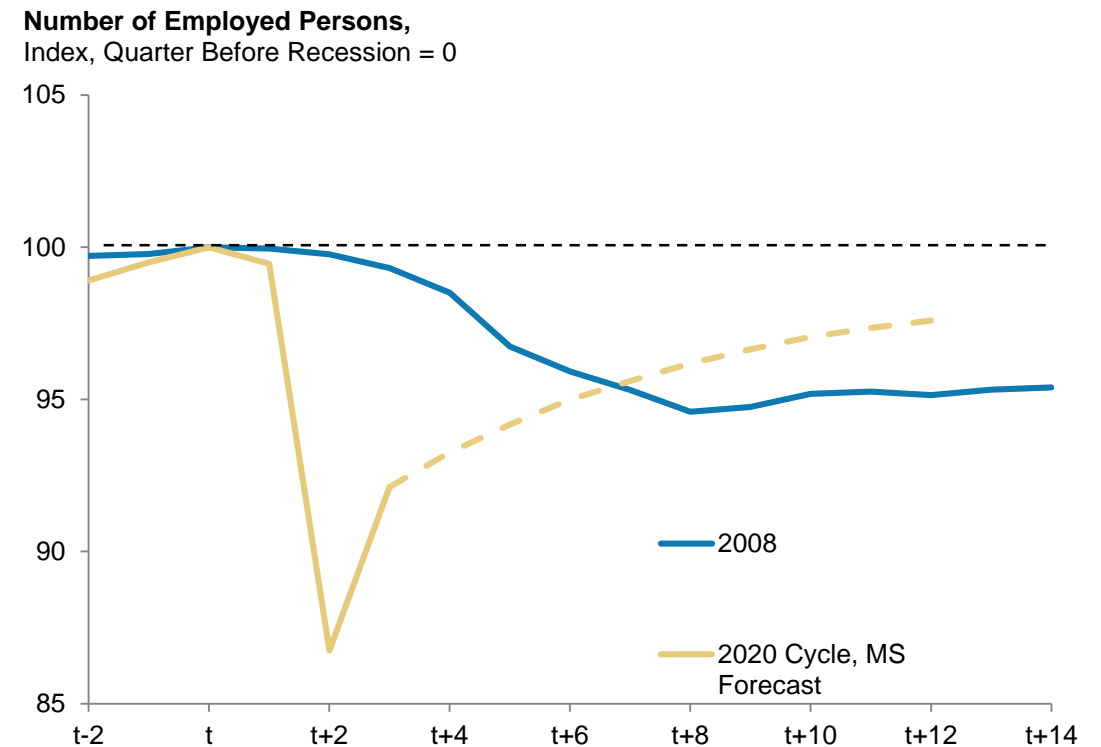
Recovering Rapidly from a Deep Downturn

US output is on track to reach pre-Covid-19 levels in 6 quarters vs 14 quarters post-GFC. Employment will lag output in this cycle, but the return to work has also greatly outpaced the GFC.

Real GDP Compared to the Post-GFC Recovery



Jobs Compared to the Post-GFC Recovery

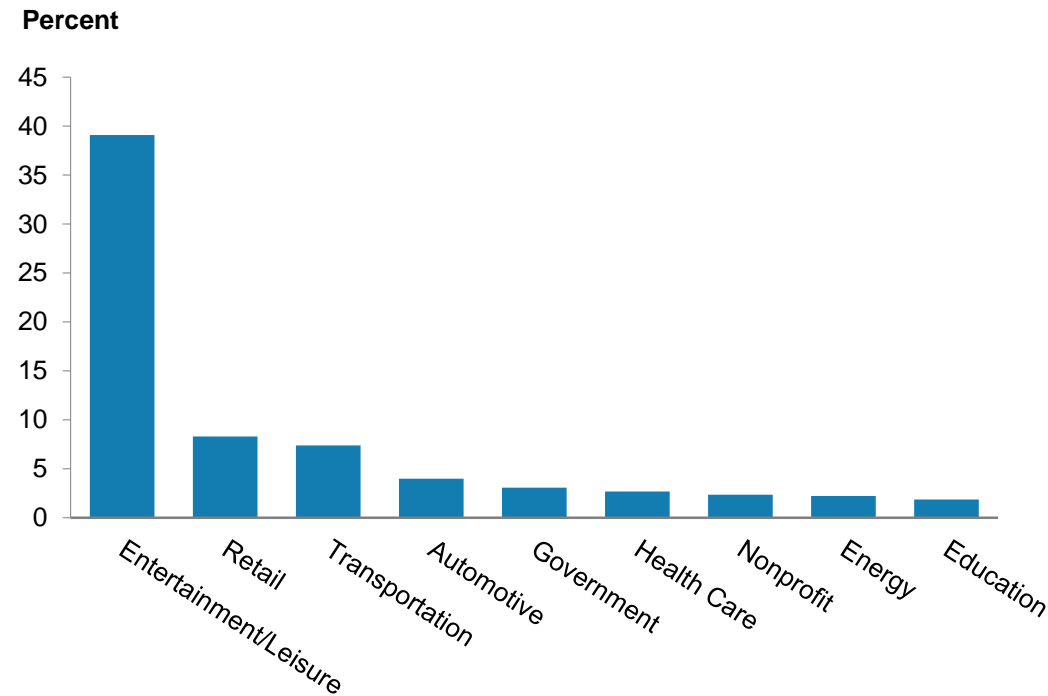


Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Morgan Stanley Research forecasts

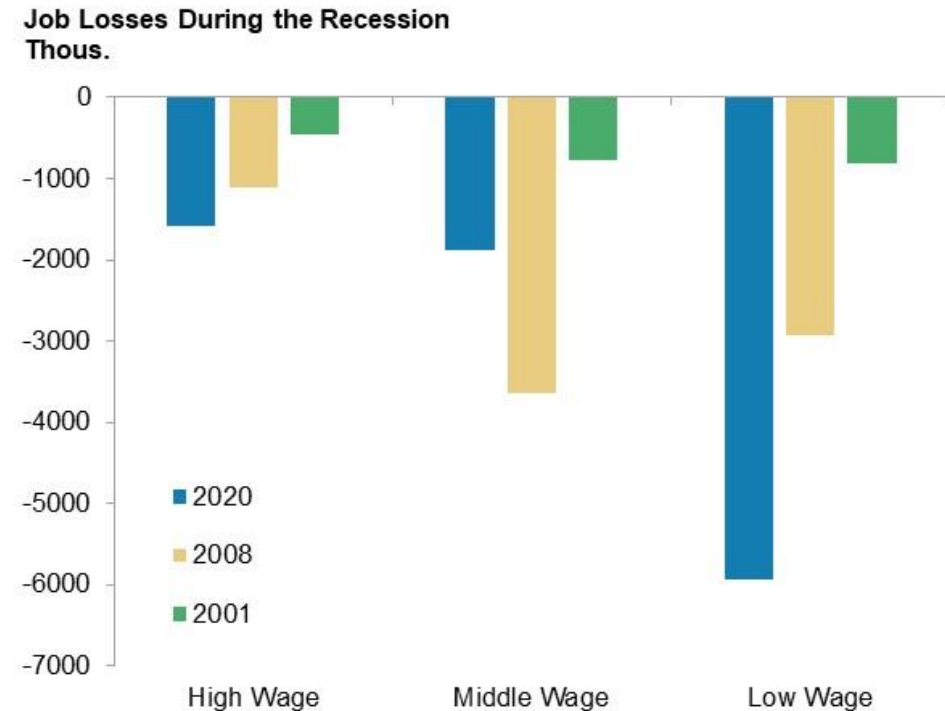
High-Density Service Sectors Have Lost the Most Jobs

Income replacement provided by the CARES Act disproportionately benefited lower income groups with a higher marginal propensity to consume.

Top sectors announcing the higher share of layoffs in 2020



These sectors are dominated by low-wage paying positions

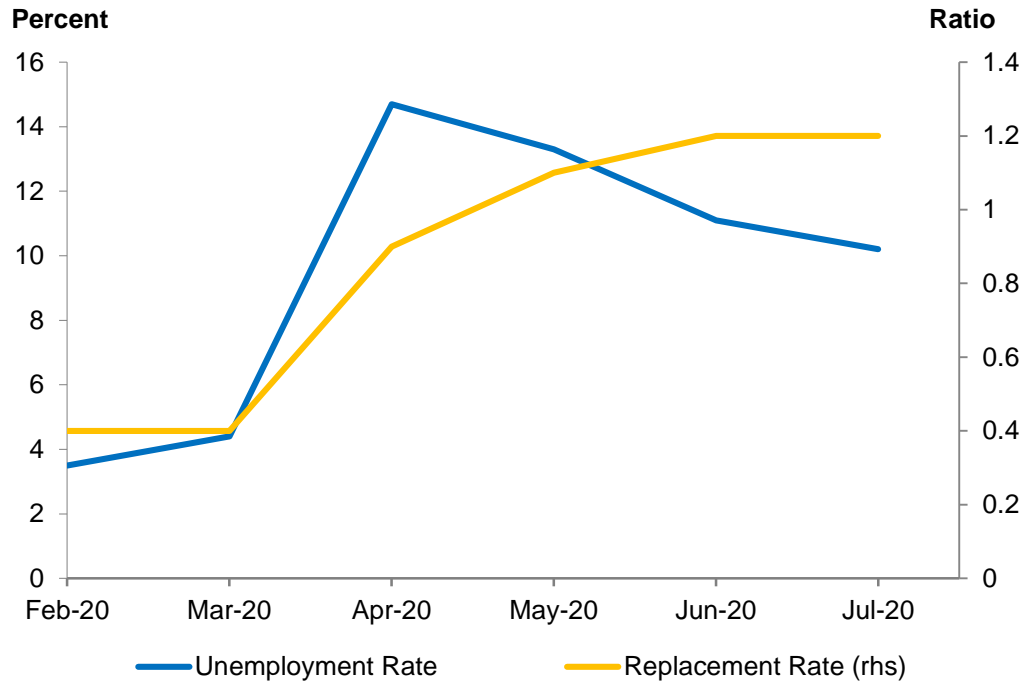


Source: Challenger, Gray, and Christmas, Bureau of Labor Statistics, Morgan Stanley Research estimates

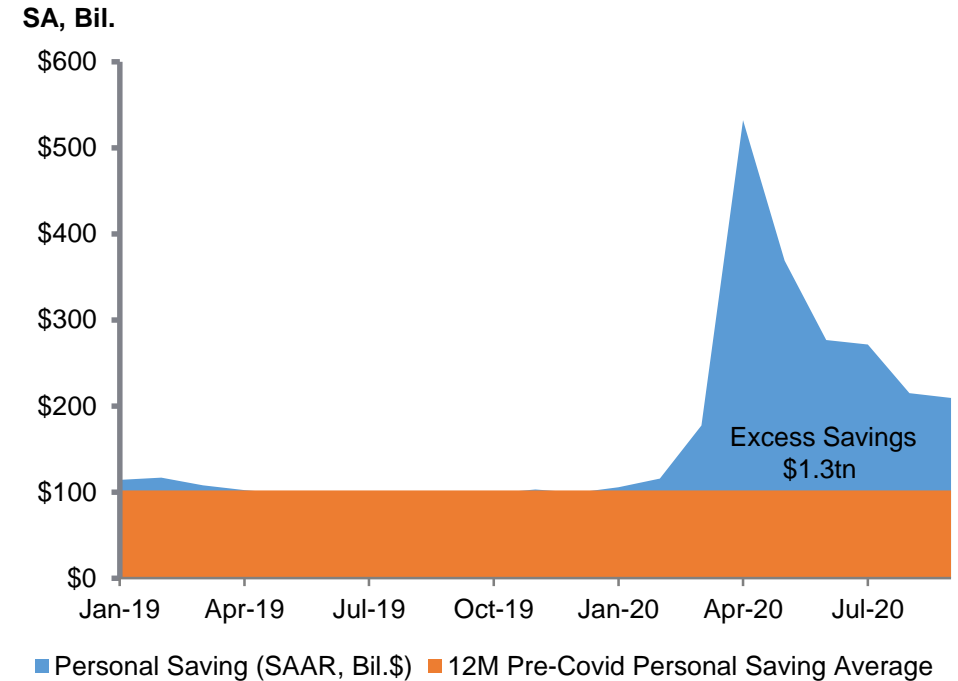
The CARES Act Replaced Income From That Job Loss

What we have referred to as the "Savings Float" has been supportive of spending, particularly among low-wage groups, as government transfers dropped in early August and they began to dis-save.

The income replacement rate from CARES 2 reached as high as 120%



Lockdown + government assistance resulted in ~\$1.3 trillion in excess savings from April through September



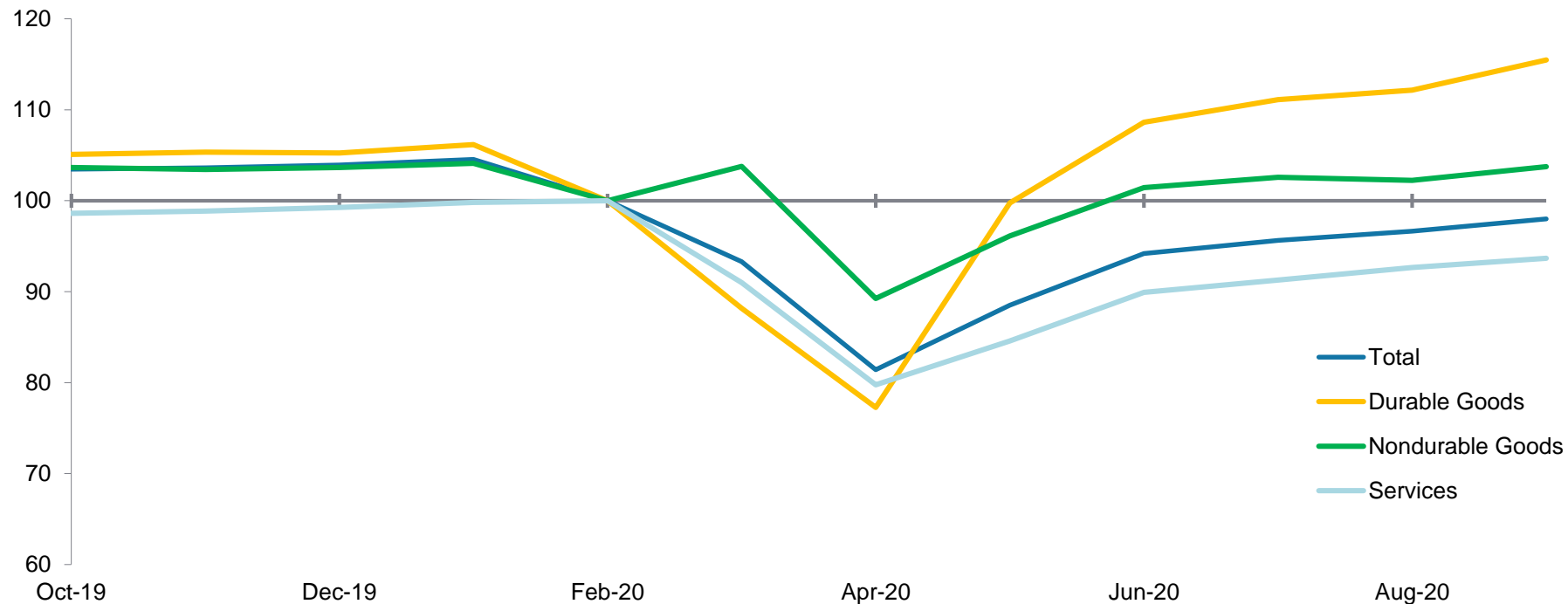
Note: These figures are de-annualized (divided by 12). We calculate excess savings by taking the cumulative difference in personal saving from April to September compared to the 12-month average personal saving level from March 2019 to February 2020.

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Morgan Stanley Research estimates

The Savings Cushion Has Helped Fuel Spending into 4Q20

Spending on durable and non-durable goods passed the previous peak by mid-2020. Based on our expectation for broad-based dissemination of a vaccine in the spring, we expect further normalization in the capacity to provide services, as well as demand for services. Our forecasts see services spending finally returning to its pre-Covid level by mid-2021.

Personal Consumption Expenditures
Index, Feb 2020 = 100



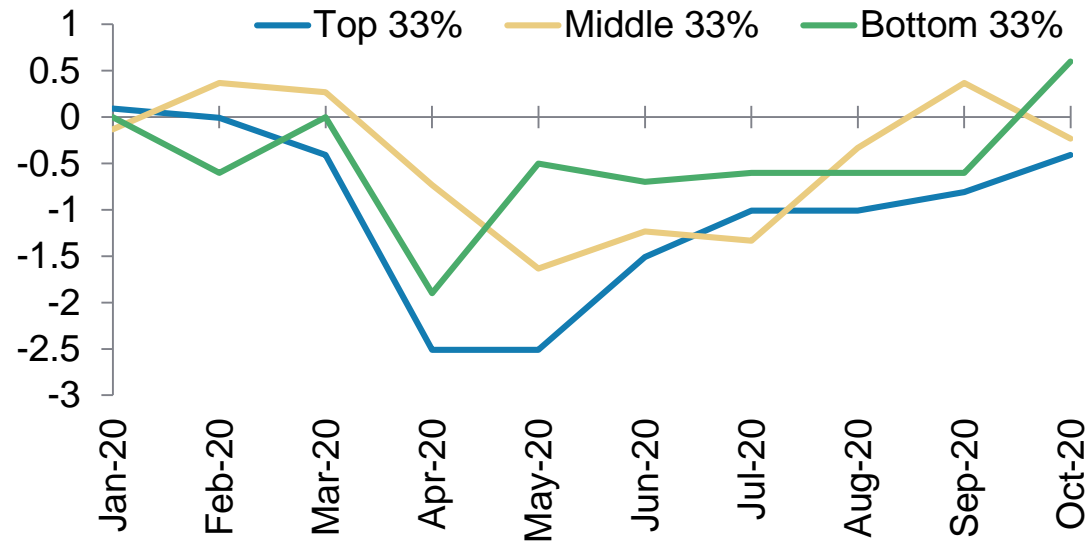
Source: Bureau of Economic Analysis, Morgan Stanley Research

Spending Intentions

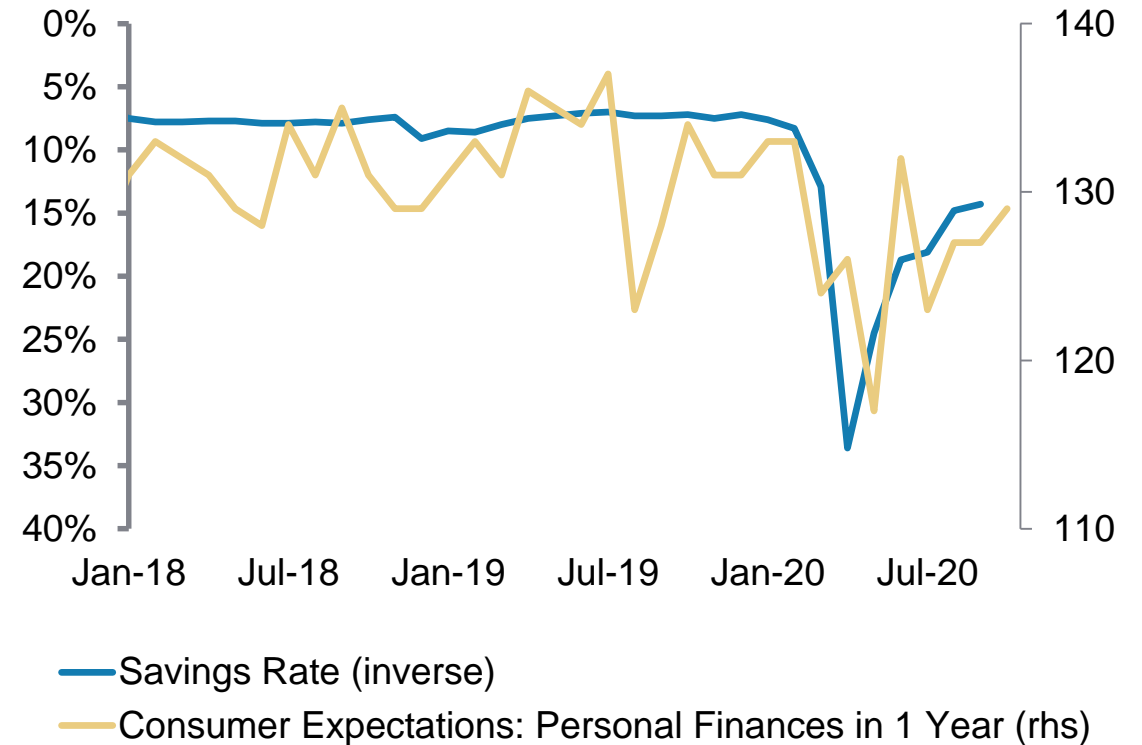
While households' current assessment of personal finances has been volatile, there has been consistent improvement in consumer financial expectations. This is important, given that how households feel about future finances tends to dictate how they spend today.

Expectations for Personal Finances by Income Tercile

Expected Rate of Change in Personal Finance in 1 Year
Difference from 2019 Average, pp



Expectations for Personal Finances and Savings Rate

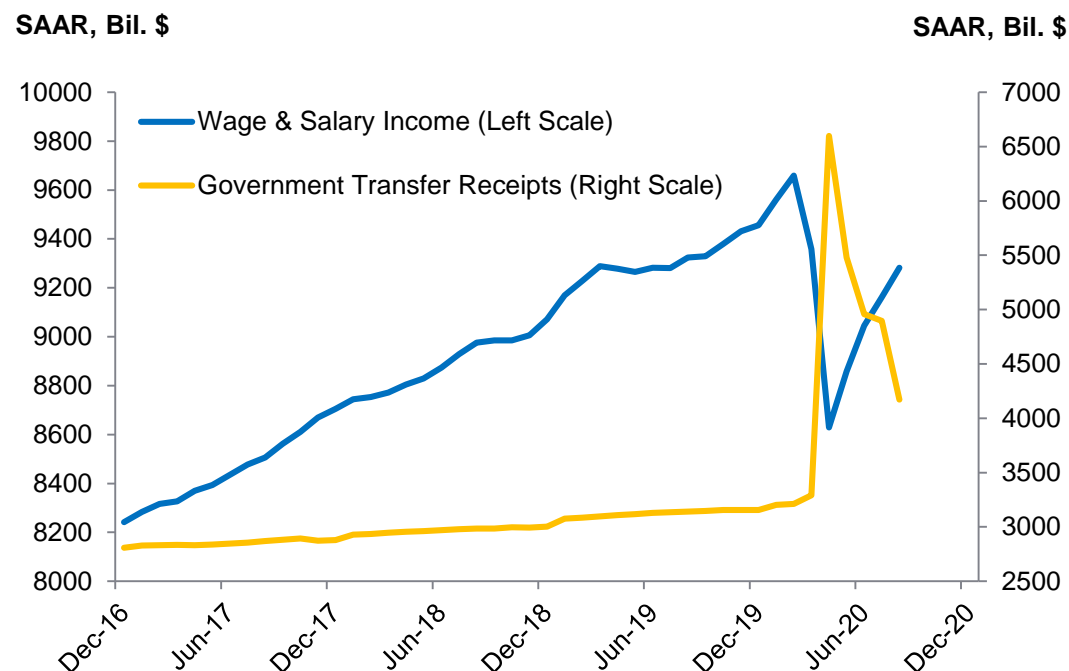


Source: Bureau of Economic Analysis, University of Michigan, Morgan Stanley Research

Key Risks to the Consumer

Labor income has not fully recovered, and rising case counts may lead to a winter of discontent.

Labor income has not fully recovered



Note: See [Put Georgia on Your Mind, November 6, 2020](#)

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Morgan Stanley Research

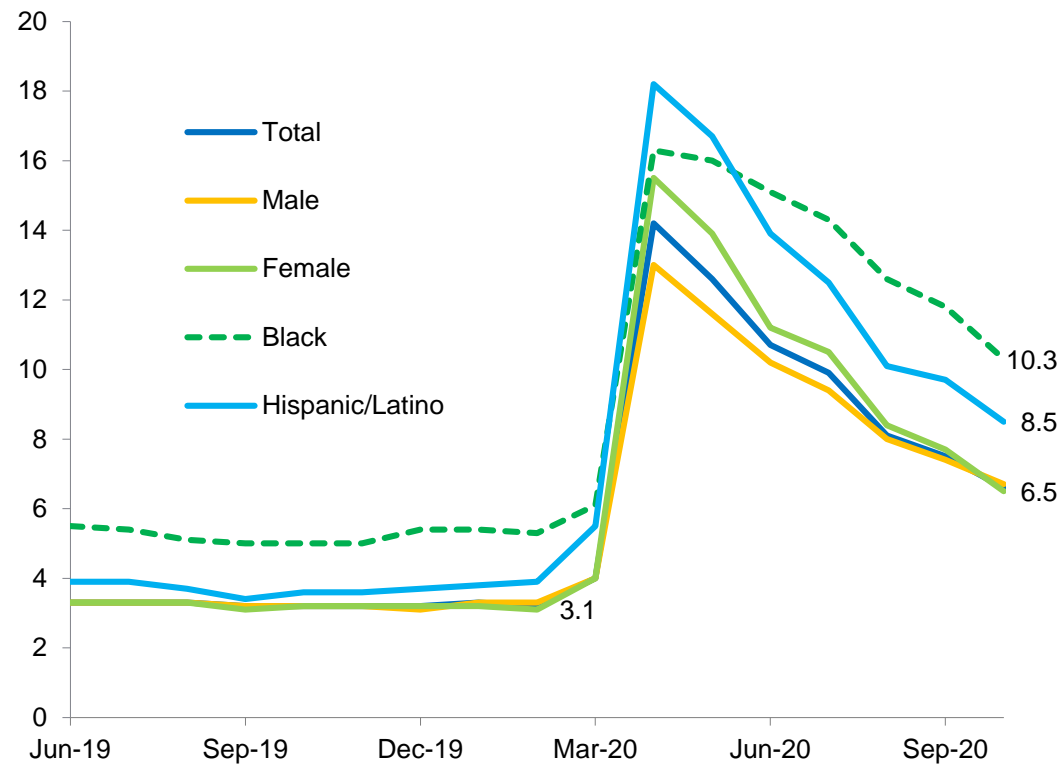
Key near-term expectations for Covid-19 and fiscal policy

- Our biotech research team does not see the trajectory of this Covid-19 wave stabilizing until late January.
- Further fiscal support before early 2021 appears unlikely, unless the data require it.
- The Biden administration may be better positioned to focus on increasing money for Covid-19 policies like testing, tracing, and vaccine distribution.
- Monetary policymakers have done their part to ensure policy is accommodative. There is a clear need for further fiscal support while Covid-19 remains a significant risk to the outlook.

The Inequity of Covid-19 and the Case for More Support

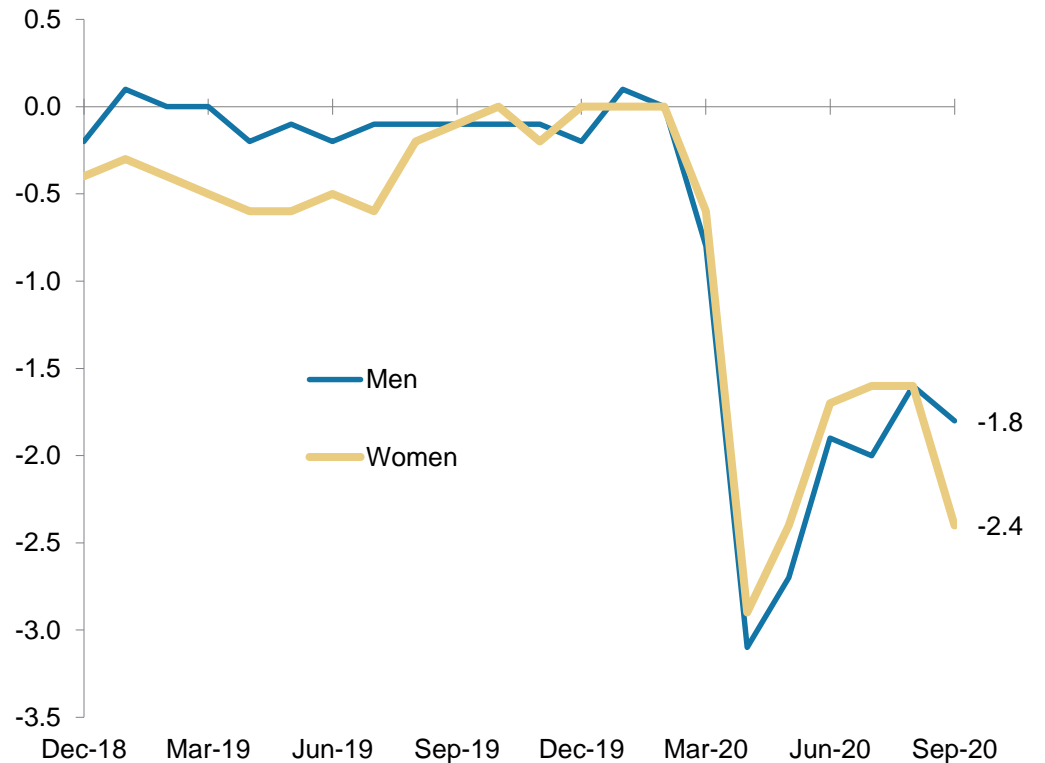
Divergence in unemployment has grown more stark

Unemployment Rate Aged 20+, %



Women have dropped out of the labor market at a greater rate compared with their male counterparts

Labor Force Participation Rate, Index February 2020=0 (pp)

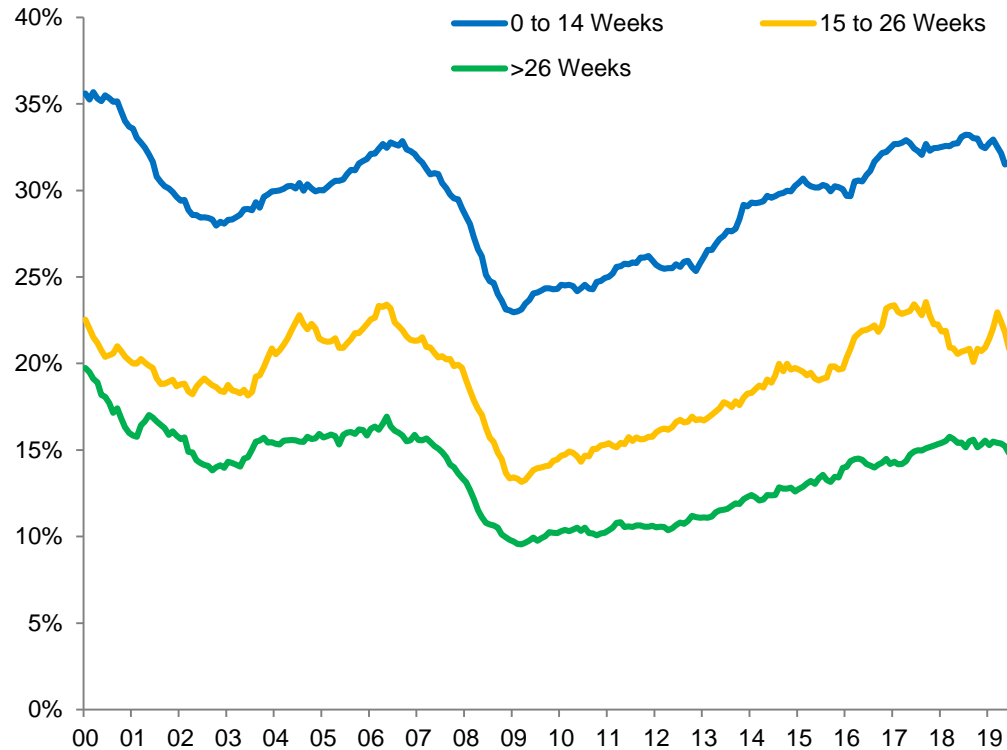


Source: Bureau of Labor Statistics, Morgan Stanley Research

Labor Force Participation Is Key to the Economy's Longer-Run Health

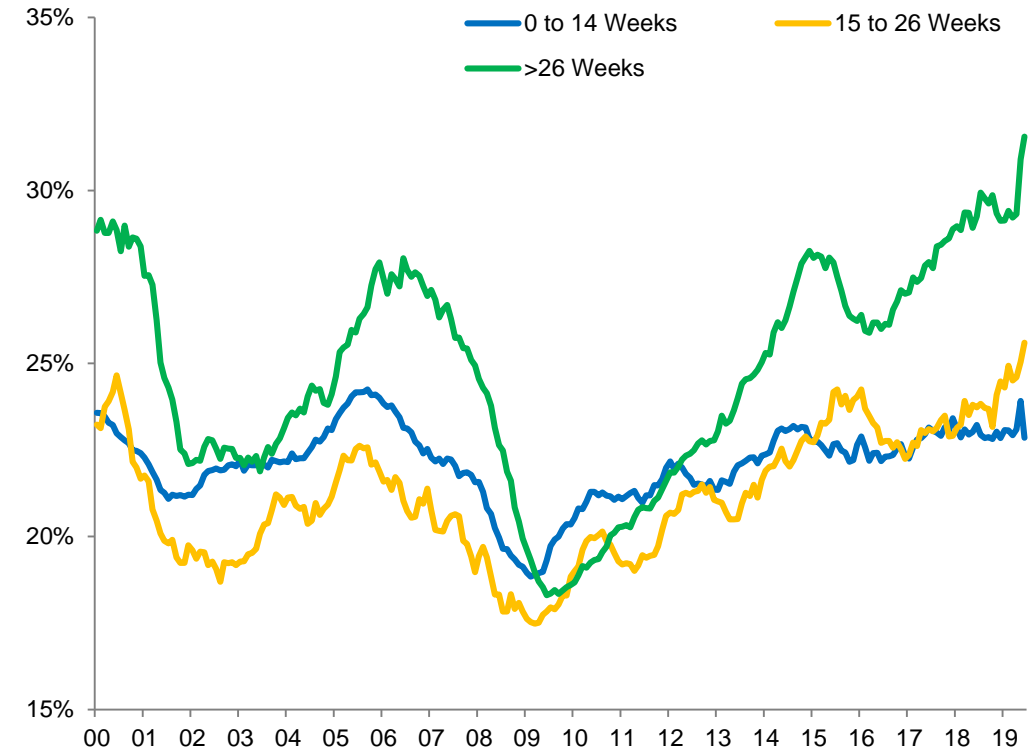
The longer someone is unemployed the lower the probability they regain employment

Probability of Re-Employment by Unemployment Duration (12MMA)



And the higher the probability they leave the labor force altogether

Probability of Leaving Labor Force by Unemployment Duration (12MMA)

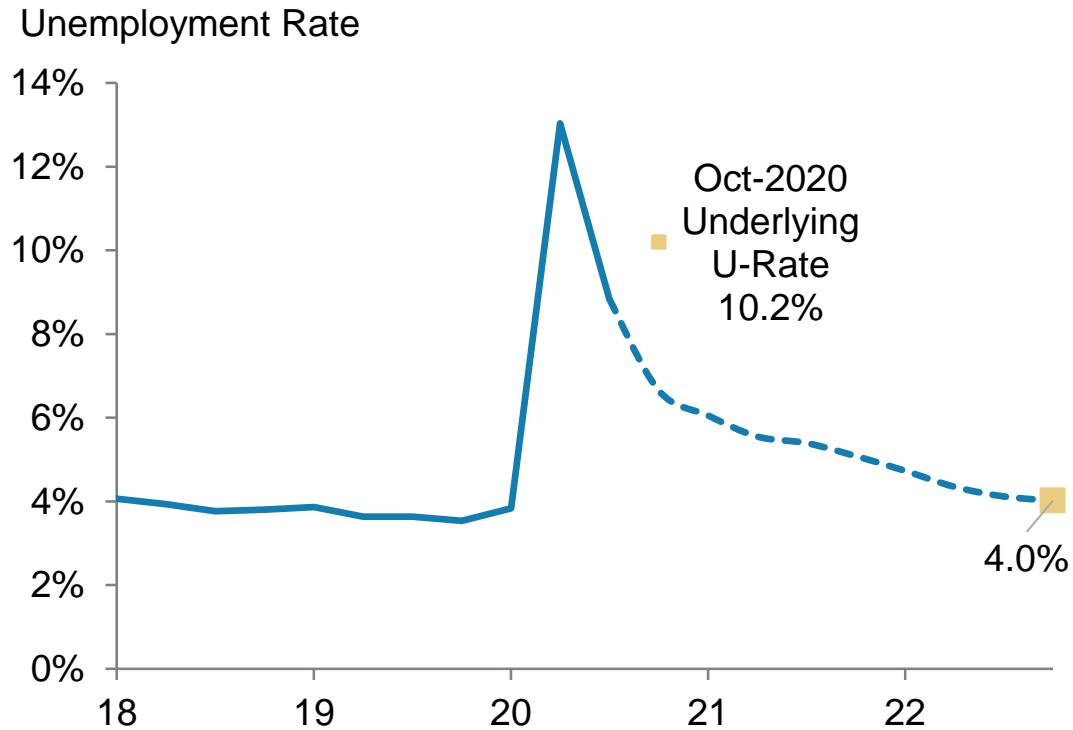


Source: Bureau of Labor Statistics, Morgan Stanley Research estimates

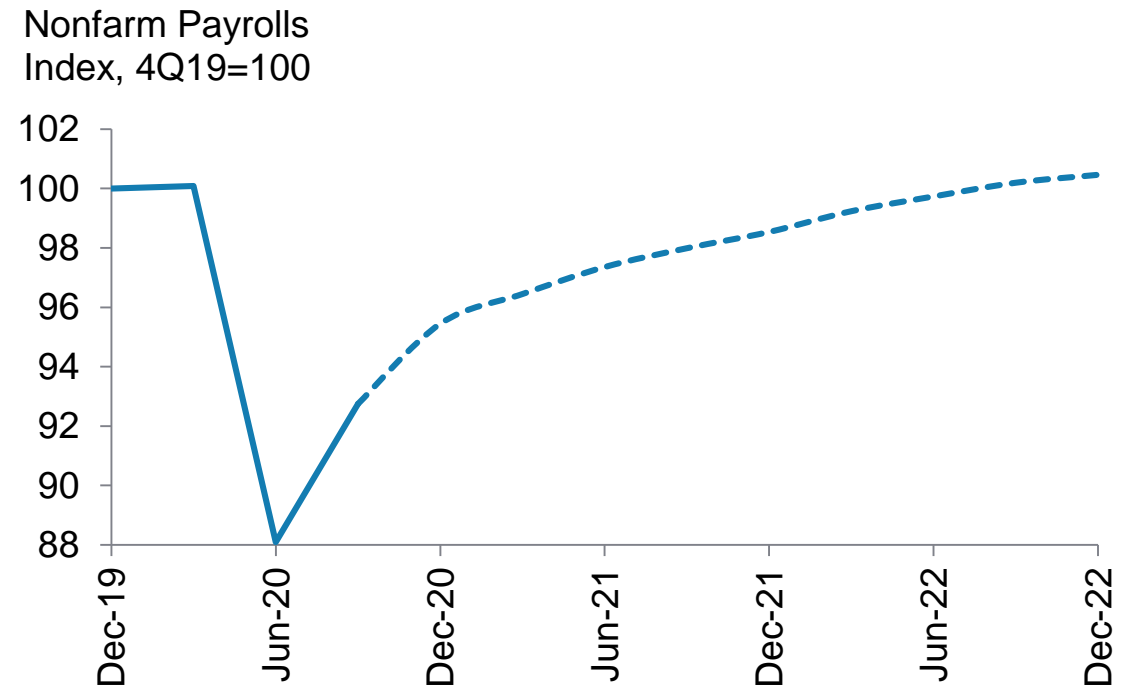
Solid Labor Market Recovery

Above-trend economic growth and vaccine availability drive our expectation that the labor market recovery will continue solidly next year. We see nonfarm payroll growth averaging around a 460,000/month pace through the first half of next year, and a roughly 310,000/month trend in 2H21.

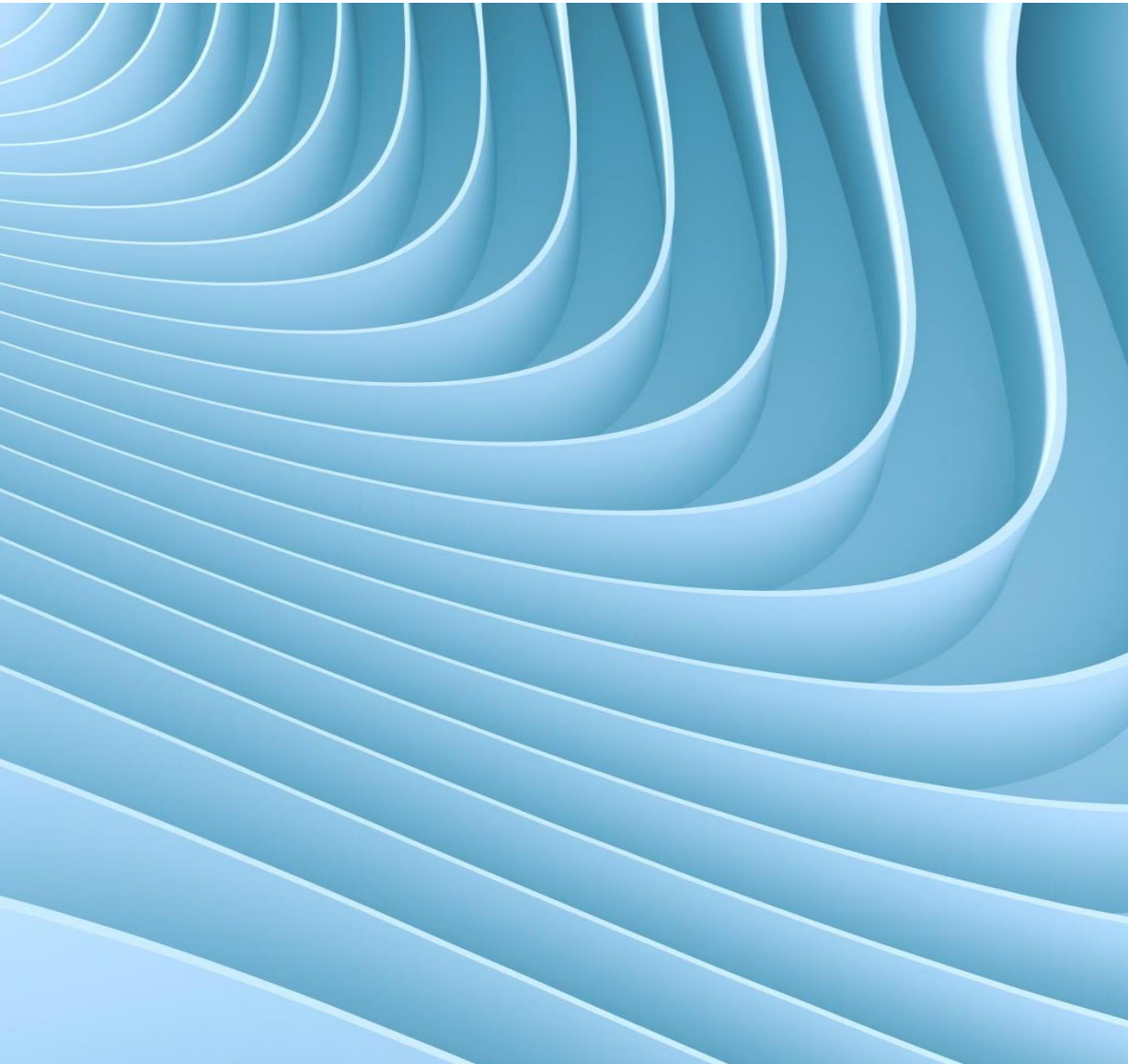
A Lower U-3, but Further Scope for Improvement in Underlying Unemployment



Above-Trend Economic Growth and Vaccine Availability to Drive the Labor Recovery Further



Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts



Inflation: A Key Above-Consensus Call

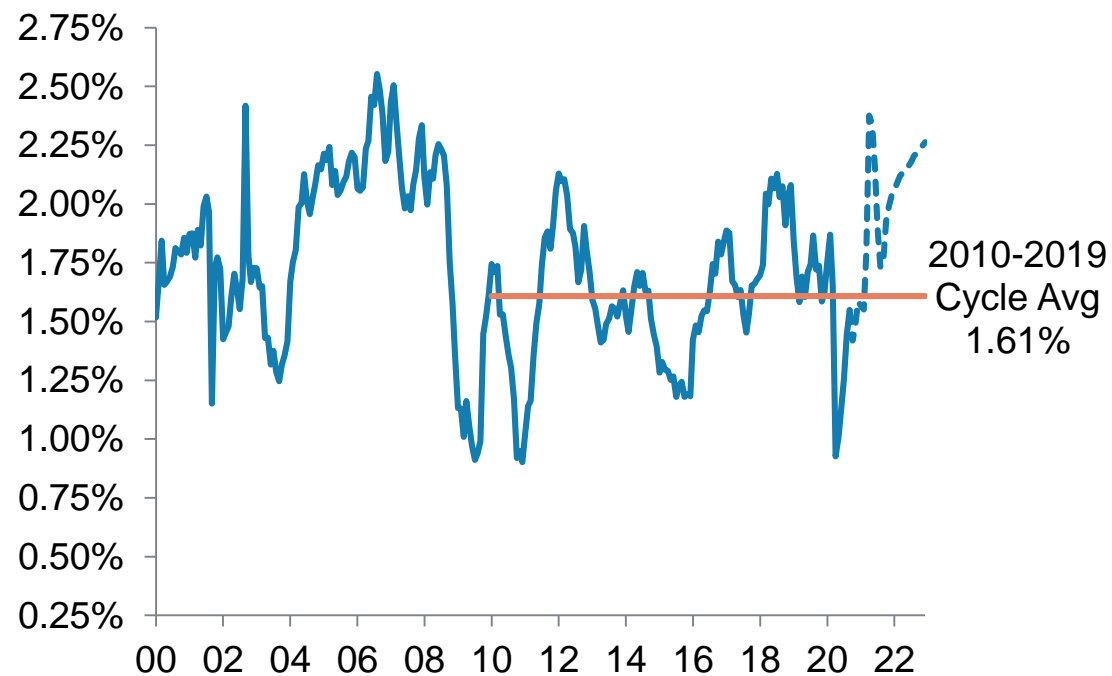
- We remain above consensus in our outlook for inflation.
- Above-trend growth, a recovery in Covid-sensitive categories of inflation post-vaccine, and recovery in the labor market raise inflationary pressures over our forecast horizon.
- Core PCE inflation will be noisy in 2021, owing to base effects from this year, but we see underlying inflationary trends firming, bringing **core PCE inflation to 1.9%Y in 4Q21 and 2.2%Y in 4Q22 (2.3%Y in December 2022)**.

Core PCE Inflation

Inflation next year is likely to be marked by divergent trends in core goods versus core services prices. After rising rapidly over this past summer, core goods inflation should moderate sequentially throughout 2021, but we expect that will be offset by a gradual firming in core services prices over the course of the next year.

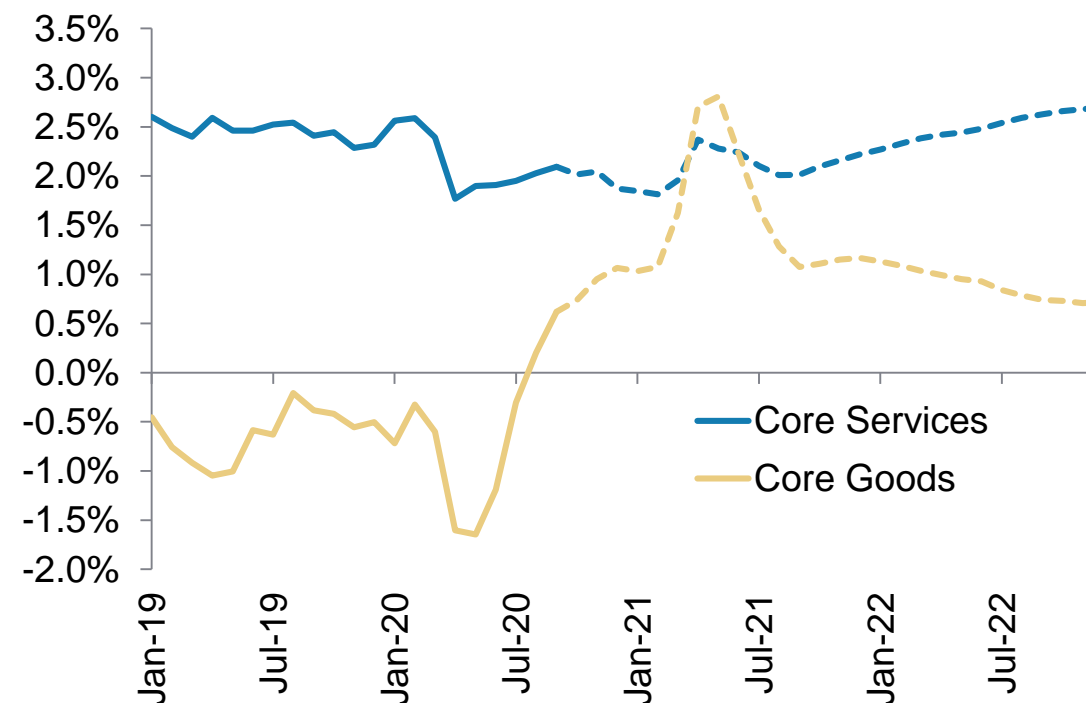
Core PCE Inflation Forecast

Core PCE Inflation (%Y)

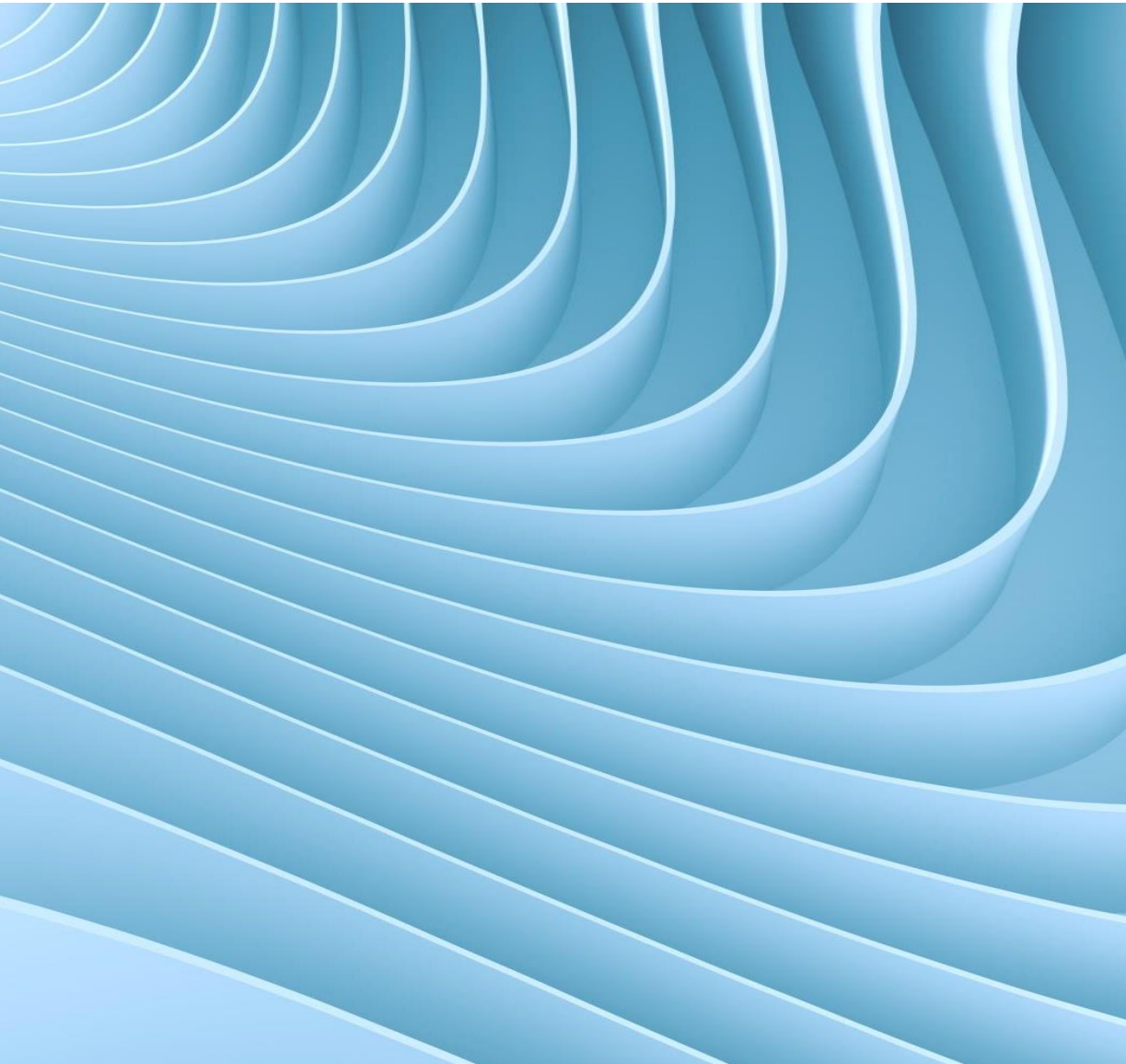


Components of Core PCE Inflation

Core PCE Inflation by Component, %Y



Source: Bureau of Economic Analysis, Morgan Stanley Research forecasts



Monetary Policy – Fed Takes Its Foot Off the Gas Pedal

Interest Rate Policy: With above-trend growth, improving labor market conditions, and inflation sustaining above 2% we see the Fed on track to deliver a first rate hike in 3Q23

Thereafter the pace of hikes may set a new standard for ‘gradual’. The September FOMC meeting next year is key.

Balance Sheet Policy: The Fed delivers forward guidance as early as December on macro conditions it needs to see in order to taper. We expect tapering to begin in January 2022 at a \$10bn Treasury/\$5bn MBS monthly pace.

On this schedule the size of the balance sheet is \$8.7tn by end-2021, and \$9.0tn by end-2022.

A Change in Fed Leadership

- The prospective new administration could reshape leadership at the Federal Reserve Board of Governors over our forecast horizon.
- This is important given that, in the next few years, the FOMC will make important decisions on when/how to remove policy accommodation as it carries out its new flexible average inflation targeting framework.

	End of term as Chair or Vice Chair	End of term as Governor
Powell	February-22	January-28
Bowman	n.a.	January-34
Brainard	n.a.	January-26
Clarida	January-22	January-22
Quarles	October-21	January-32
Shelton*	n.a.	January-24
Waller*	n.a.	January-30

Note: * At the time of publishing, Judy Shelton and Christopher Waller's nominations to the Federal Reserve Board of Governors could be up for vote as early as the week of November 16, 2020. We expect they will fill the two currently vacant positions.

Source: Federal Reserve Board, Morgan Stanley Research

Disclosures

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. LLC, and/or Morgan Stanley C.T.V.M. S.A., and/or Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., and/or Morgan Stanley Canada Limited. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. LLC, Morgan Stanley C.T.V.M. S.A., Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., Morgan Stanley Canada Limited and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictolicies. A Portuguese version of the policy can be found at www.morganstanley.com.br

Important Disclosures

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.

Disclosures (cont'd.)

To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A. located at Av. Brigadeiro Faria Lima, 3600, 6th floor, São Paulo - SP, Brazil; and is regulated by the Comissão de Valores Mobiliários; in Mexico by Morgan Stanley México, Casa de Bolsa, S.A. de C.V. which is regulated by Comisión Nacional Bancaria y de Valores. Paseo de los Tamarindos 90, Torre 1, Col. Bosques de las Lomas Floor 29, 05120 Mexico City; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Morgan Stanley Asia International Limited, Hong Kong Branch; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Morgan Stanley Asia International Limited, Singapore Branch (Registration number T11FC0207F); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Vietnam this report is issued by Morgan Stanley Singapore Holdings; in Canada by Morgan Stanley Canada Limited, which has approved of and takes responsibility for its contents in Canada; in Germany and the European Economic Area where required by Morgan Stanley Europe S.E., regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. RMB Morgan Stanley Proprietary Limited is a member of the JSE Limited and A2X (Pty) Ltd. RMB Morgan Stanley Proprietary Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Indicators and trackers referenced in Morgan Stanley Research may not be used as, or treated as, a benchmark under Regulation EU 2016/1011, or any other similar framework.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided exclusively to persons based on their risk and income preferences by the authorized firms. Comments and recommendations stated here are general in nature. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The Americas

1585 Broadway
New York, NY 10036-8293
United States
+1 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
+44 (0)20 7425 8000

Japan

1-9-7 Otemachi, Chiyoda-ku
Tokyo 100-8104
Japan
+81 (0) 3 6836 5000

Asia/Pacific

1 Austin Road West
Kowloon
Hong Kong
+852 2848 5200