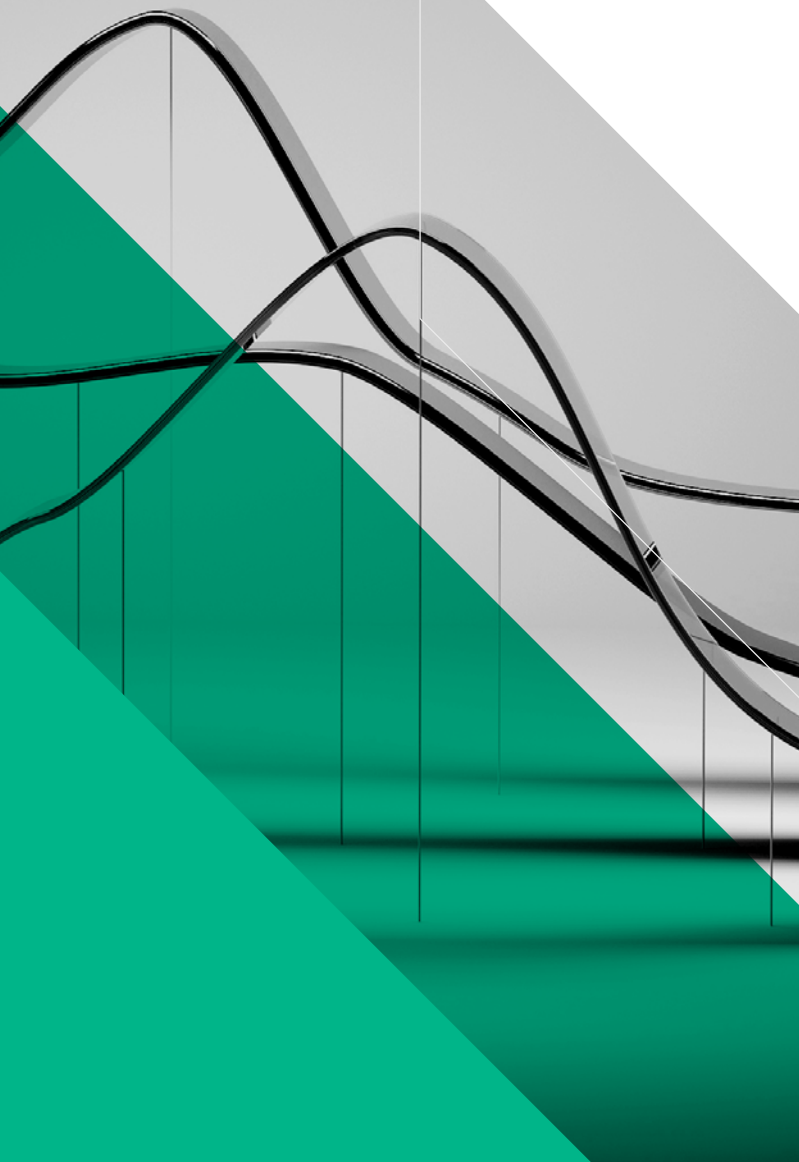


THE EFFECT OF THE 2020 ELECTION ON THE ECONOMY IN 2021

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Morning Consult is a global data intelligence company delivering insights on what people think in real time. By surveying tens of thousands across the globe every day, Morning Consult is unmatched in scale and speed: It determines the true measure of what people think and how their decisions impact business, politics and the economy.

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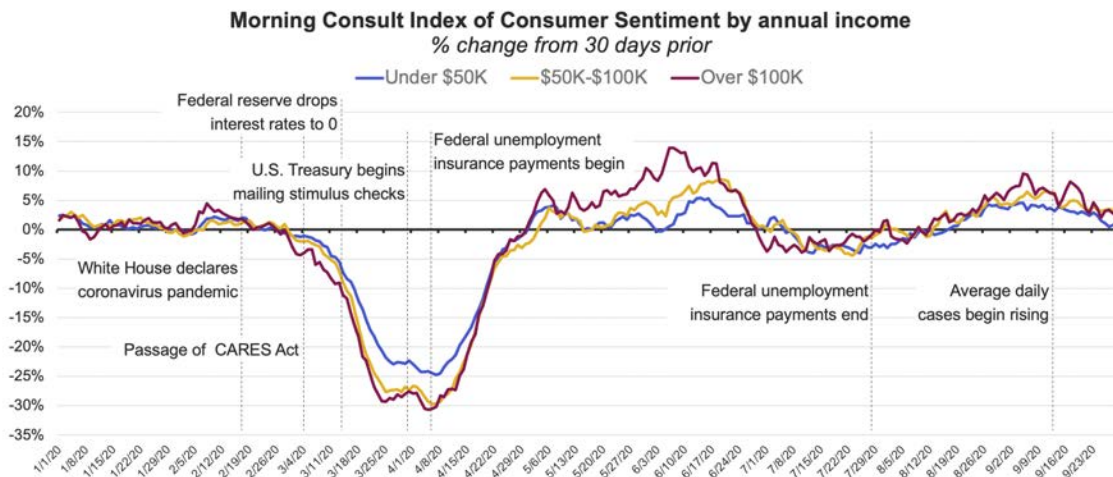
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INTRODUCTION

The coronavirus pandemic pushed the U.S. economy into the sharpest recession on record in the second quarter of 2020. Fueled by significant spending by Congress and low interest rates from the Federal Reserve, the economy is on track to rebound in the third quarter.¹ However, stalled stimulus discussions, constrained monetary policy and continued increases in new coronavirus cases cast doubt on the strength and sustainability of the recovery. Against this backdrop of economic uncertainty, the 2020 U.S. election will be key in shaping economic outcomes throughout 2021.

Figure 1

Recent economic and policy developments shape near-term growth outlook



Elections and politics have the potential to dramatically alter the trajectory of the U.S. economy. Fiscal spending and tax policies can boost economic activity during downturns in the business cycle, while investments in education, infrastructure and health care can enhance the quality and competitiveness of the U.S. economy in the long run. Even before the president or Congress pass legislation or enforce regulations, changes in Americans' expectations regarding future policies can affect the economy.

This report assesses the likely impact of the election on the economy, both in terms of the fundamental drivers of economic growth and Americans' expectations of the future. It relies on two data sources proprietary to Morning Consult. The first is Morning Consult Political Intelligence, which provides insight into the most likely election outcomes if the election were held today. The second is Morning Consult Economic Intelligence, which tracks Americans' economic expectations of the future and their current economic experiences.

¹ As of October 27, 2020, the Federal Reserve Bank of Atlanta's GDPNow forecasts third quarter GDP growth of 36.2%.
<https://www.frbatlanta.org/cqer/research/gdpnow>

In light of this data, the likely effects of the election on the economy are as follows:

- The most likely election outcome as of Oct. 27 is that Joe Biden wins the presidency. Additionally, regardless of which party controls the Senate, there is a strong likelihood the majority will be as small or smaller in 2021 than it is now, making compromises and moderate positions more necessary to pass legislation.
- The election outcome is most likely to influence the economy in 2021 in terms of the size, scope and timing of a second coronavirus stimulus bill. The baseline election scenario suggests that a fiscal stimulus bill will not get passed and signed into until the 117th Congress is in session. A Republican Senate majority is unlikely to agree on additional funding for state and local governments, risking an acceleration in layoffs. The delay in the timing also jeopardizes the already slowing economic recovery.
- Despite widespread concern regarding election uncertainty, the election is unlikely to materially influence the economy via sudden changes in consumer or business confidence.

The economic outlook for 2021 heavily depends on the strength of consumer spending, which in turn depends on the size and scope of federal fiscal stimulus since growth in consumer confidence and employment have stalled. The strength and speed of the recovery depend on the path of the virus, and policymakers should try to keep it that way. The risk to the U.S. economy is that the recession induced by the pandemic starts following the playbook of standard recessions, characterized by prolonged unemployment, elevated delinquencies and defaults and a breakdown in financial intermediation.

Moving beyond 2021, the trajectory of the economy is more likely to be characterized by long-run secular trends. In particular, persistently low interest rates and inflation mean that monetary policy will remain less well-equipped to address the country's economic challenges beyond 2021, meaning that the political landscape is likely to remain relevant to the economic outlook for the foreseeable future.

EFFECT OF THE ELECTION ON THE ECONOMY

1. Assessing the political landscape in 2021

Election outcomes depend on candidates mobilizing potential voters to cast their ballots. Even prior to the coronavirus, it was challenging to predict which groups of voters were likely to turn out on election day. The ongoing pandemic has exacerbated these challenges by introducing additional uncertainty surrounding voters' comfort with mail-in ballots and states' ability to effectively execute the election.

Survey results provide an indication of the most likely election outcomes when the survey was conducted. Morning Consult Political Intelligence conducts 5,000 daily interviews with registered voters in the United States that record their choices in presidential and congressional elections. It then filters those responses to produce a group of likely voters based on respondents' self-reported likelihood of casting their ballots, yielding interviews with roughly 4,400 likely voters per day.

Based on Morning Consult's national and state-level data, it is more likely that Democratic candidate Joe Biden will win the election than Republican incumbent Donald Trump. The national polls show Biden with a 9-point lead if the election were held today. However, the Electoral College ultimately decides the results of the presidential election, and looking at key swing states, Biden leads Trump among likely voters in Florida, Michigan, Pennsylvania and Wisconsin. Based on these state-level results, Biden is favored to win the election if it were held today.

Figure 2

State-level surveys in key states give Biden the upper hand if the election were held today

Each data point reflects surveys conducted between October 11-20, 2020 with likely voters. The margin may not match the displayed vote share due to rounding.

	MARGIN	BIDEN %	TRUMP %	NET SHIFT SINCE 10/11
Arizona N: 1,066 MOE: 3.0%	Trump +1 Within MOE	47%	48%	+4 Within MOE
Florida N: 4,685 MOE: 1.4%	Biden +6	52%	45%	+1 Within MOE
Michigan N: 1,717 MOE: 2.4%	Biden +7	52%	44%	No shift
North Carolina N: 1,904 MOE: 2.2%	Biden +3 Within MOE	50%	47%	+1 Within MOE
Pennsylvania N: 2,563 MOE: 1.9%	Biden +9	52%	43%	+2 Within MOE
Wisconsin N: 1,038 MOE: 3.0%	Biden +12	54%	42%	+5 Within MOE

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Turning to the Senate, Democrats lead in Arizona, Colorado and North Carolina, all of which are currently held by Republicans. Democrats' lead in Colorado is stronger than it is in [Arizona](#) and [North Carolina](#), where the races remain tight. In Alabama, Doug Jones looks set to give back his seat to Republicans. Republican incumbents in [South Carolina](#), [Maine](#) and [Iowa](#) are also in tight races.

Figure 3

Senate results will shape legislative priorities in 2021

Respondents are asked, "If the November 2020 U.S. Senate election were being held today, for whom would you vote?"

Each data point reflects surveys conducted between October 11-20, 2020 with likely voters. The margin may not match the displayed vote share due to rounding.

	MARGIN	DEMOCRAT %	REPUBLICAN %
Arizona N: 1,066 MOE: 3.0%	Kelly +4 Within MOE	48% Mark Kelly	44% Martha McSally
Colorado N: 788 MOE: 3.5%	Hickenlooper +9	50% John Hickenlooper	42% Cory Gardner
Georgia N: 1,672 MOE: 2.4%	Perdue +1 Within MOE	44% Jon Osoff	46% David Perdue
Michigan N: 1,717 MOE: 2.4%	Peters +6	48% Gary Peters	42% John James
North Carolina N: 1,904 MOE: 2.2%	Cunningham +5	48% Cal Cunningham	42% Thom Tillis
South Carolina N: 926 MOE: 3.2%	Harrison +2 Within MOE	47% Jaime Harrison	45% Lindsey Graham

Assuming Democrats pick up a seat in Colorado while giving up a seat in Alabama, Republicans would maintain their current 53-47 majority in the Senate. Democrats would need to pick up three seats across Arizona, North Carolina, South Carolina, Maine and Iowa to split the Senate 50-50, with the vice president casting the deciding vote for simple majority resolutions.

Figure 4 assigns probability categories to four discrete election outcomes, which reflect judgmental analysis of the most recent polling data from Morning Consult Political Intelligence. If the election were held today, a Biden presidency with a Republican- or a Democrat-controlled Senate are the most likely outcomes. Biden's lead over Trump in the polls is more decisive than the current state of the key Senate races. The second-most likely outcome is that Trump wins the presidency and Republicans retain control of the Senate, followed by the least likely outcome of Trump winning the presidency and Democrats taking control of the Senate.

Figure 4

Election outcome scenarios and their probabilities

Companies should consider the business implications of the differences between the two most likely election outcomes

		WHITE HOUSE	
		Trump	Biden
SENATE	Republican	Scenario I (Moderate probability)	Scenario III (High probability)
	Democrat	Scenario II (Low probability)	Scenario IV (High probability)

Note: Probabilities assigned to each scenario reflect the most likely outcome if the election were held today.

This scenario analysis provides a framework for assessing the likely impact of the election on the dynamics likely to shape economic policy in 2021. Research has consistently shown that legislative outcomes depend on the margins by which candidates win, the size of congressional majorities and the polarization of candidates and their parties.² In terms of assessing the likely economic policy outcomes in 2021, even if Democrats were to gain control by winning three seats in the aforementioned states, the policy priorities from Democrat senators in historically conservative states is likely to drive legislative outcomes closer to the center.

Morning Consult Political Intelligence provides three critical insights. First, a Biden presidency is the most likely outcome. Second, control of the Senate is unlikely to be any stronger in the 117th Congress than it is now. Third, Republican incumbents in battleground states who hold onto their seats and Democrats who gain new seats are likely to govern narrowly divided electorates, pushing them closer to the ideological center in their respective states.

² See Hughes, T., & Carlson, D. (2015). Divided Government and Delay in the Legislative Process. *American Politics Research*, 43(5), 771-792.

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2. Elections influence the economy through two channels

Elections influence the economy through two distinct channels. First, policy outcomes have the potential to directly affect all four components of GDP. In the short term, federal economic policies can boost economic activity during downturns in the business cycle, thereby mitigating some of the harmful effects of prolonged periods of elevated unemployment. These so-called demand-side policies include fiscal stimulus, tax relief and mortgage forbearance, to name just a few. In the long run, legislation and regulation can foster investment, drive innovation and provide Americans with the skills they need to compete in the global economy. While these effects tend to be more difficult to measure, they are also more important to producing long-run economic growth.

Figure 5

Election outcomes drive policies and priorities that directly influence each of the four components of GDP



Elections also influence consumer and business confidence, which impact consumption and business investment



Second, elections can also influence consumers' and businesses' confidence in the economy, which acts as an input to consumption and investment decisions. For example, once it became clear to Americans in early 1933 that Roosevelt intended to move away from the gold standard and adopt inflationary monetary and fiscal policies, business investment rebounded even before those policies were put in place.³ More recently, Nobel laureate Robert Shiller has argued that the stories or narratives that Americans' tell each other about the economy can influence economic outcomes. If the election outcome increases Americans' faith in policymakers' ability to address the country's economic challenges, then the economy may itself improve.

³ See Temin and Wigmore (1990), "The End of One Big Deation", *Explorations in Economic History*, 27(4), 483-502; Eggertsson (2008), "Great Expectations and the End of the Depression", *American Economic Review*, 98(4), 1476-1516.

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3. Sensitivity of economic policy outcomes to the election

Not all policy areas are equally sensitive to the election outcome, nor are they equally important to understanding the likely path of the economy in 2021.

Figure 6

Not all policies are equally dependent on election outcomes

POLICY	Primary Effect on GDP	Dependence on Election Outcome	Likelihood of Policy Change Affecting 2021 Economy
Fiscal Stimulus	Consumption; Government spending	High	High
Tax	Business investment	High	Low
Immigration	Consumption; Business investment	High	Low
Health Care	Consumption; Business investment; Government spending	High	Low
Monetary	Business investment	Low	Low
Trade	Net exports	Low	Low

Category 1: Highly sensitive to election outcome; high likelihood of influencing the economy in 2021

Fiscal spending to combat the damaging health and economic effects of the coronavirus pandemic is the policy space most sensitive to the election outcome and most capable of influencing the economy in 2021. With respect to its economic import, it is not an exaggeration to say that the fate of the U.S. economy depends on policymakers passing an [adequate fiscal spending bill that complements and improves upon the CARES Act](#).

Fiscal policy has to bear a greater share of the burden than it did during the 2007-2009 Great Recession, when traditional monetary policy and quantitative easing provided some additional economic stimulus. Interest rates are already near the so-called zero lower bound and inflation remains persistently low, meaning that the Federal Reserve does not have the same firepower to lower real interest rates as it did during the last recession. As discussed in greater detail in the next section, the strength of the U.S. economy in 2021 depends on consumer spending, and consumption cannot continue to drive the recovery without additional stimulus spending.

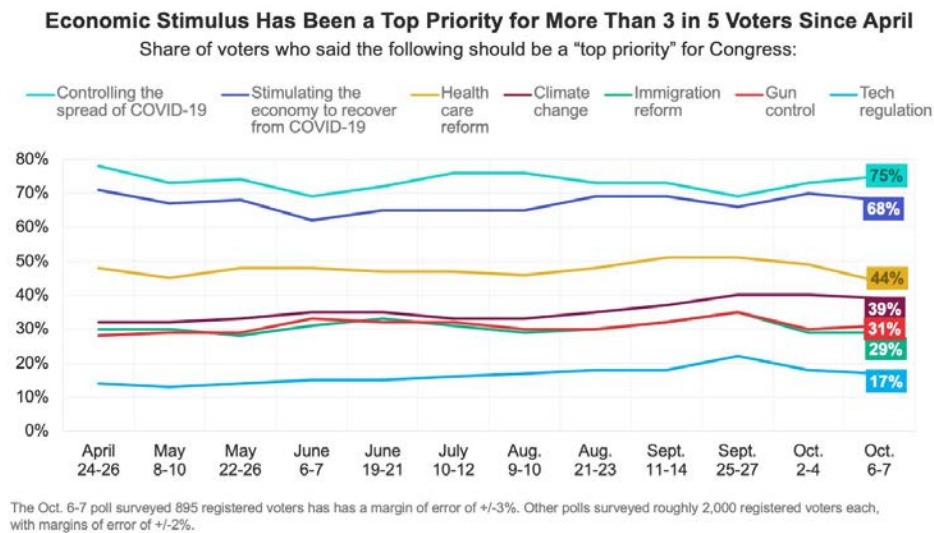
Fiscal policy also encompasses federal spending for measures designed to combat the spread of the virus, such as testing, contact tracing and enhancements to buildings' ventilation systems.

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As shown in Figure 7, fiscal stimulus spending enjoys persistent support among the electorate. The current White House, Senate and House have all also expressed an interest in reaching an agreement, although they are at odds over the size and scope of the relief package.⁴ Taken together, these indicators suggest that some sort of spending bill will be passed regardless of the election outcome.

Figure 7

Widespread support for additional fiscal stimulus will result in a deal, although the timing and amount depend on the election



However, the election is likely to shape the details of that legislation. For example, will the bill include funding for state and local governments facing budget shortfalls? Will schools and other essential public institutions receive funding to allow them to mitigate the risks of reopening during the pandemic? Will the federal government fund testing and contact tracing facilities so consumers feel more comfortable engaging in critical economic activities?

If Biden wins the election and Republicans retain narrow control of the Senate, there is a strong chance that Senate Republicans will push back even stronger against fiscal spending than they are currently in an effort to regain their bona fides as deficit hawks. In particular, they are likely to continue to push back against legislation that provides funding for state and local governments. Without such funding, the risk of state and local government employees being laid off or furloughed increases. As of September, state and local governments employed 18.675 million workers, accounting for 13 percent of total nonfarm payrolls.⁵ If a sizable share of these workers is laid off or furloughed, economic growth will suffer in 2021.

⁴ Democrats in the House want a second coronavirus relief bill to include financial aid for state and local governments, whereas the White House and Senate want any second bill to be narrowly focused on providing financial aid for individuals, excluding state and local governments.

⁵ U.S. Bureau of Labor Statistics

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If Biden wins and generates enough down-ticket momentum for Democrats to split control of the Senate, it becomes more likely that legislation will include funding for state and local governments. In the short run, such funding increases the likelihood of state and local government workers remaining employed, which is important for the U.S. economy as a whole. Quite apart from concerns regarding moral hazard or deficit spending, this policy outcome would generate the stronger economic growth in 2021 than the prior or following policy scenarios.

On the other hand, if Trump retains the White House and Republicans retain the Senate, it becomes highly likely that Congress and the White House agree on a narrow version of the stimulus bill that includes direct financial aid to individuals, but omits funding for state and local governments and for additional testing and contact tracing. This outcome would be better for the economy in the fourth quarter and early first quarter, but would leave the economy exposed the remainder of the year as states and local governments are forced to cut spending and services in response to their sudden and dramatic decreases in tax revenues.

Category 2: Highly sensitive to political outcome; low likelihood of influencing the economy in 2021

The political parties and presidential candidates offer competing visions for the future of tax, health care, immigration and the environmental policy. However, given the likely political landscape described in the prior section, all of these policies will require some degree of legislative compromise to account for narrowing majorities and tight Senate races. Policymakers' priorities throughout the first half of 2021 are likely to continue to be shaped by the ongoing coronavirus pandemic, thereby decreasing legislators' capacity to address these other issues in time for them to influence the economy in 2021.

Even if Democrats control the White House and the Senate, it remains unlikely that they will push through the tax increases supported by Biden due to timing issues. The election cycle and the business cycle are not aligned to produce effective countercyclical tax policy. Increasing taxes makes sense from an economic perspective when the economy is strong, but the U.S. economy is likely three years away from healing from the economic wounds inflicted by the pandemic. In three years, with the 2024 elections around the corner, it becomes less likely that Congress or the White House will have an appetite for increasing personal income or corporate taxes.

To be clear, tax, health care, environmental and immigration policies have a profound impact on the U.S. economy. Rather, the likelihood of major legislation in these areas passing in time to influence the economy in 2021 is very low given the ongoing pandemic and likelihood of a smaller Senate majority achieved through close elections.

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Category 3: Less sensitive to political outcome

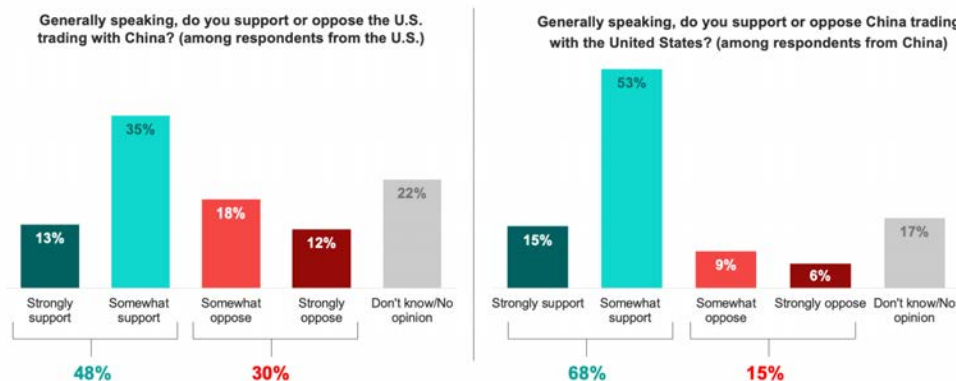
Monetary and trade policies are less sensitive to the election outcome and less likely to change the trajectory of the economy through the end of the year.

Monetary policy is likely to remain extremely accommodative for the foreseeable future. The Federal Open Market Committee (FOMC) within the Federal Reserve System recently committed to keeping interest rates near zero percent through 2023. While the president has the ability to appoint two members to the Federal Reserve Board, it is unlikely that those two members would materially change the consensus view on the FOMC.

Trade is another area where election outcomes are unlikely to materially influence economic outcomes over the coming year. Although Biden's trade policy platform espouses a less aggressive approach to renegotiating existing trade deals than Trump has in his first administration, Biden's platform retains much of the protectionist sentiment that has gathered momentum in the U.S. and across the globe. Figure 8 shows that 30 percent of Americans oppose trading with China, compared to 15 percent of Chinese who oppose trading with the United States. Given the global nature of the coronavirus pandemic, it is unlikely that the United States and its trading partners will possess the bandwidth to enter negotiations until the pandemic is under control.

Figure 8

Chinese adults are generally more supportive of trading with America than Americans are with trading with China



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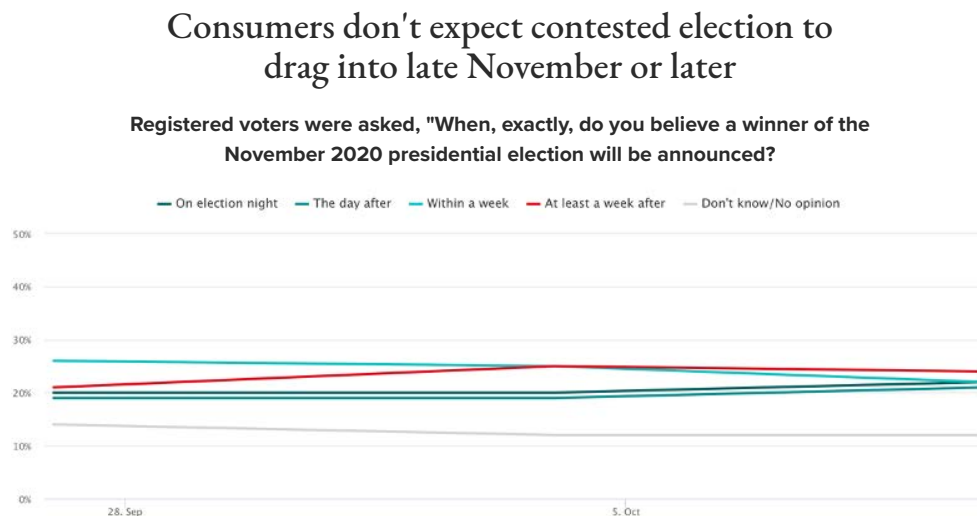
4. Sensitivity of consumer confidence to election outcomes

The election and associated uncertainty about when the winner will be declared are unlikely to materially affect consumer or business confidence in a way that manifests itself in terms of consumers' spending patterns or business investment.

Consumer confidence

Most Americans have already baked into their future expectations some degree of election uncertainty during the days following the election. Only 21 percent of voters expect the final election results to be announced on election night. However, 65 percent of voters expect the results to be announced within a week, with only 20 percent saying that it will take at least one week. As long as the final election results are announced within a week of the election, it is unlikely that election uncertainty will harm consumer confidence.

Figure 9

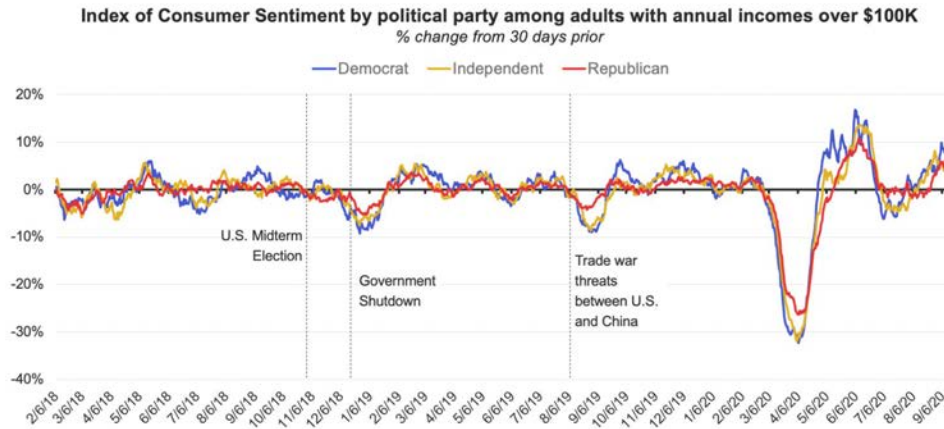


Partisan shifts in consumer confidence following the election are likely to be at least partially offset by counterbalancing shifts among consumers of the opposite party. As the chart below shows, after controlling for income differences, Republicans and Democrats tend to react similarly over time even though average consumer confidence among high-income Republicans is noticeably higher than it is among high-income Democrats. Controlling for income differences helps isolate the true effect of party differences on consumer confidence. As discussed in the next section, trends over time in consumer confidence are what matter for the economy.

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Figure 10

Election unlikely to influence consumer spending through 2020

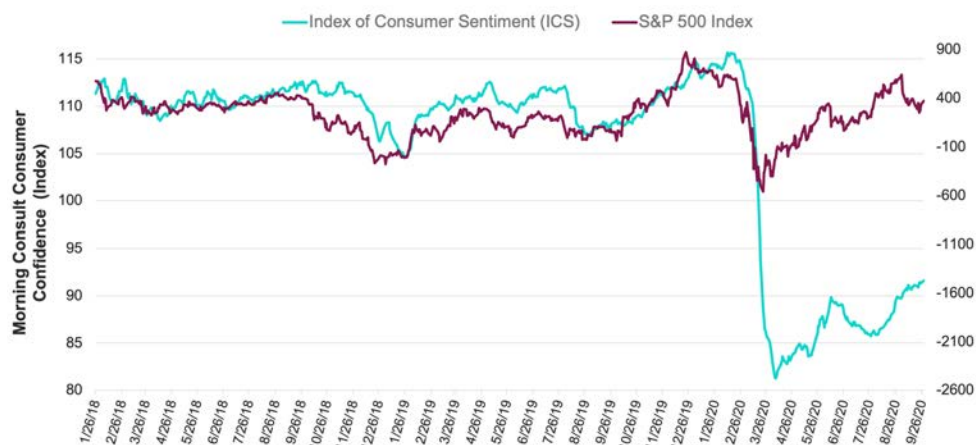


Consumers are also less likely to be influenced by the stock market during the days and weeks following the election. Historically, the stock market rallies once investors have a clearer sense of the country's future policy priorities. During the lead-up to an election, many investors keep money on the sidelines rather than investing it in financial markets for fear of getting burned on the wrong side of an election outcome. Once the election is decided, stocks tend to rally as more money moves into equities.

Over the course of the coronavirus pandemic, the relationship between consumer confidence and the stock market has broken down, with consumers less likely to become more confident in the economy in response to growing optimism on Wall Street. For this reason, it is unlikely that dramatic swings in the stock market related to the election results will influence consumer confidence.

Figure 11

Election-induced stock market volatility is unlikely to affect the consumer



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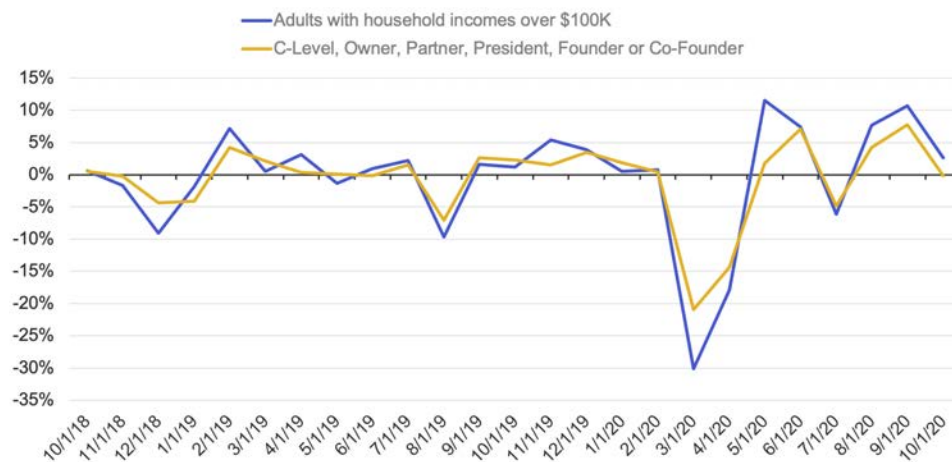
Business Confidence

C-suite executives and high-income adults provide two separate approaches to measuring business confidence. These groups reflect distinct subpopulations within the United States who are more closely in touch with business conditions across the country. C-suite executives are by and large a subset of high-income adults. In other words, their unique insight into the future state of the economy derives not only from their incomes, but also from the positions they occupy in the business world. They are responsible for making business decisions, including capital expenditures and investments.

This difference between these two groups manifests itself in terms of different reaction functions to economic developments. C-suite executives change their 12-month business forecasts less dramatically over time than high-income adults. While the average long-run levels of confidence in future business conditions in the country are nearly identical between these two groups, C-suite executives maintain their outlook over time to a greater degree than high-income adults.

Figure 12

Business conditions: 12-month expectations



This finding is not the result of additional noise in the data sets due to different sample sizes. To the contrary, the average monthly sample size among high-income adults is roughly double what it is among C-suite executives. In general, smaller sample sizes are associated with greater variation of time, all else equal. The fact that the group with the smaller sample size exhibits a greater degree of stability indicates that C-suite executives genuinely behave differently than high-income adults.

This data indicates that C-suite executives fundamentally process data differently than high-income adults. They are able to do a better job than high-income adults of identifying economically salient events and developments. They can see through the fog of war, so to speak.

For that reason, neither business confidence nor business investment are likely to significantly change following the election. Policymakers of either political party will inherit the same challenging economic fundamentals in January, and business confidence will primarily reflect the ability of those policymakers to tackle the health and economic consequences of the ongoing pandemic. High-income adults may change their views of the economy in response to stock market movements, but the people most likely to make major investment decisions are less likely to be swayed by that sort of development.

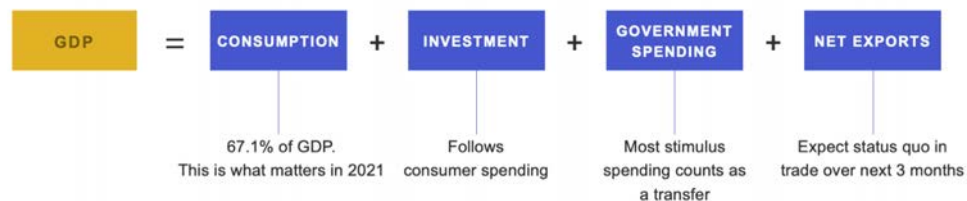
ECONOMIC OUTLOOK IN 2021

1. Components of economic growth

The strength of the economy in 2021 primarily depends on the strength of consumer spending. Consumer spending accounted for 67.1 percent of GDP during the second quarter of 2020, by far the largest of the four components of GDP. Additionally, business investment tends to follow or lag U.S. consumption patterns, meaning that businesses tend to make their investment decisions after observing the strength of consumption.⁶ If consumption falls, business investment is likely to follow.

Figure 13

Path of consumer spending drives the near-term path of the economy, which ultimately determines pace of the rebound in 2021



The last section argued in favor of the economic importance of fiscal stimulus policy, which suggests that government spending will also be important in 2021. However, much of the fiscal spending being considered by policymakers is treated as a transfer from the federal government to consumers or to state and local governments, meaning that it does not count as GDP until consumers or state and local governments spend those transfer payments on goods or services.

⁶ Choi, David, "Consumption Leads the Way," Goldman Sachs. 2 November 2019.

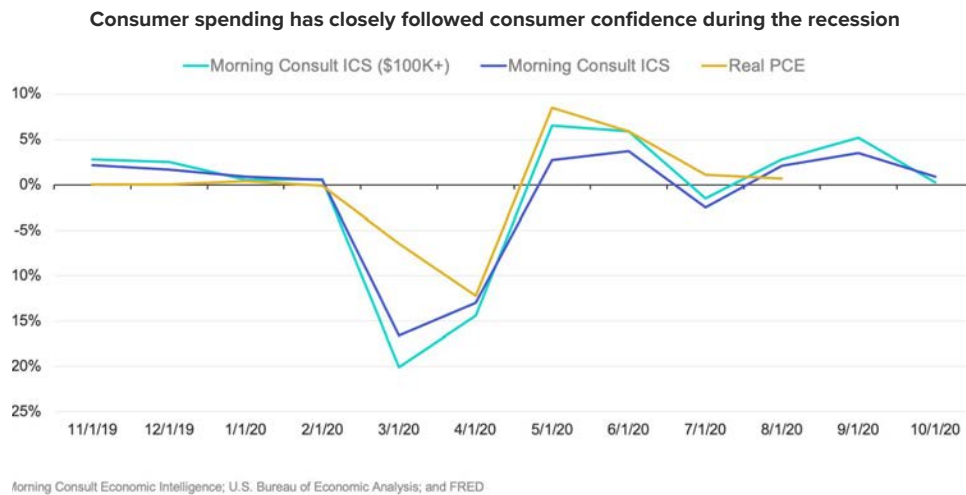
CHAPTER 2: ECONOMIC OUTLOOK IN 2021

2. Consumer confidence

Consumer spending patterns during the pandemic have closely tracked trends in consumer confidence. Confidence and spending rebounded when consumers received their stimulus checks and federal unemployment benefits. More recently, the recovery in spending has stalled. While Americans across the income spectrum have experienced the recovery differently, recent trends in consumer confidence indicate that growth in spending is likely to remain subdued for all income cohorts.

Figure 14

Spending in September looks strong, but October is shaping up to be weak



Based on this data, consumer spending growth in Q4 2020 and Q1 2021 looks set to underperform unless Congress and the White House pass an adequate stimulus package. Given the existing implementation infrastructure from the CARES Act, any additional stimulus checks will drive economic growth in the concurrent quarter.

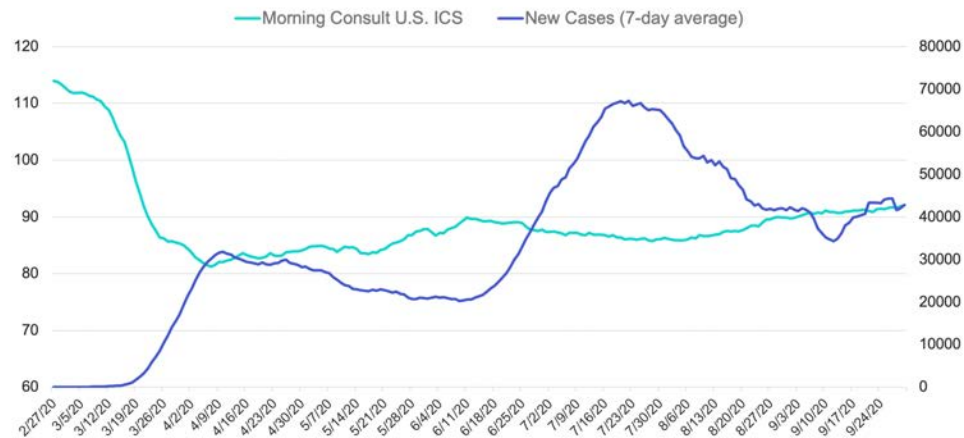
3. Effect of the virus on consumer spending

The strength and speed of the recovery depend on the path of the virus, and policymakers should try to keep it that way. The risk to the U.S. economy is that the recession induced by the pandemic starts following the playbook of standard recessions, characterized by prolonged unemployment, elevated delinquencies and defaults and a breakdown in financial intermediation.

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Figure 15

The path of the economy is a function of the spread of the virus

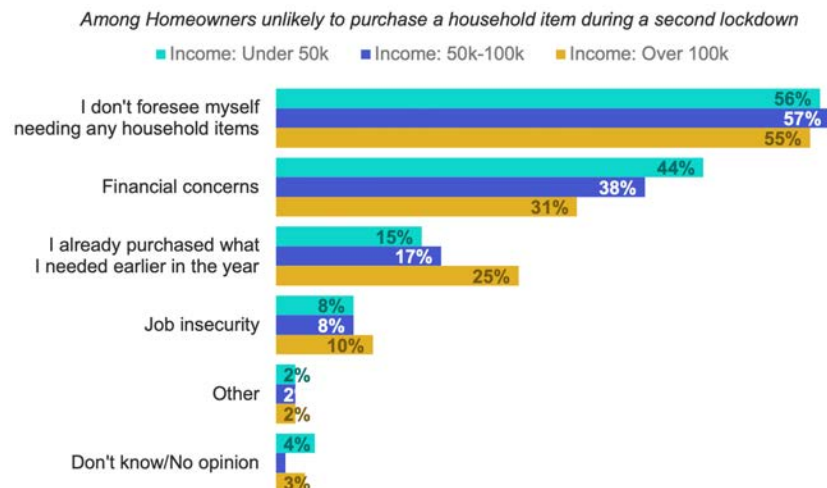


Recent increases in the number of new cases present an additional obstacle to sustained growth in consumer spending. As cases continue to rise, confidence and spending are both likely to fall. Unlike earlier in the year, it is less likely that spending on goods will benefit as much from substitution effects since many of the durable goods purchases in early and mid-2020 reflected pulled forward demand. Consumers who redecorated their homes or upgraded their home offices in 2020 are unlikely to do so again in 2021.

Figure 16

1 in 4 homeowners with an income over 100k are unlikely to purchase a household item during a second lockdown because they already purchased what they needed this year

Why are you unlikely to purchase a household item during a second lockdown? Please select all that apply.



CHAPTER 2: ECONOMIC OUTLOOK IN 2021

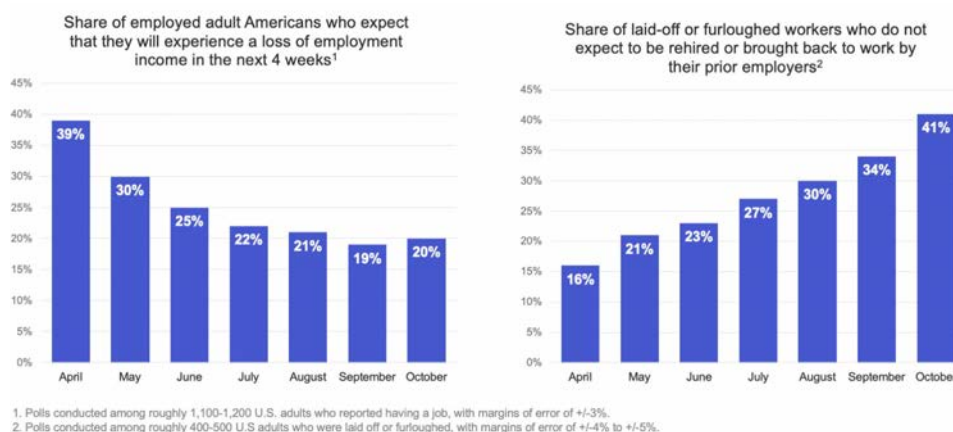
4. Employment and Income

Gains in employment are unlikely to drive consumer spending in 2021 for two reasons. First, the unemployment rate is likely to remain elevated through the end of 2021. As of September, the median unemployment rate forecast for the fourth quarter of 2021 among FOMC participants was 5.5 percent, lower than the current jobless rate of 7.9 percent, but still 1.8 percentage points above the 24-month average heading into the pandemic.⁷

Figure 17 shows that unemployed workers have grown increasingly pessimistic about their chances of returning to work for their prior employers. As of October, 41 percent of laid-off or furloughed workers do not expect to be rehired by their prior employers. At the same time, a persistently high share of employed workers expects to suffer a loss of employment income in the next month. Both of these indicators point to a slowdown in job creation and work resumption in 2021.

Figure 17

Employment anxieties shift from employed to unemployed, increasing the likelihood of a K-shaped recovery



Second, persistently high initial claims for unemployment insurance indicate that the many workers continue to lose their jobs and their incomes.

⁷ September 2020 Summary of Economic Projections, Federal Open Market Committee, Federal Reserve. 16 September 2020. <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20200916.pdf>

CHAPTER 2: ECONOMIC OUTLOOK IN 2021

Figure 18

Initial unemployment claims remain elevated by historical standards

The rate of decrease has stalled, indicating that the recovery is not as robust as it seemed earlier in the summer



Source: U.S. Employment and Training Administration; Morning Consult's weekly polls conducted among roughly 15,000 U.S. adults, with margins of error of +/-1%.

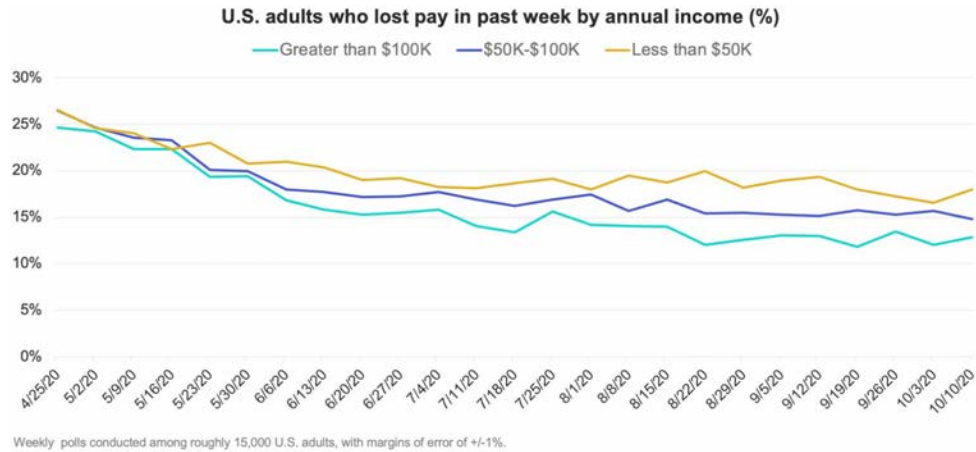
Taken together, American consumers are not receiving enough money from their incomes to support spending, which presents a serious risk to the economy over the next year and further supports the need for policymakers to provide consumers with additional stimulus checks.

From a distributional perspective, employment outcomes are likely to remain extremely uneven across the income spectrum. Low-income workers are likely to remain disproportionately negatively affected by the slowdown in the economy, as are workers in service-centric industries. Such distributional concerns highlight the growing likelihood of weaknesses in households' balance sheets driving delinquencies and defaults, albeit among a subset of the population.

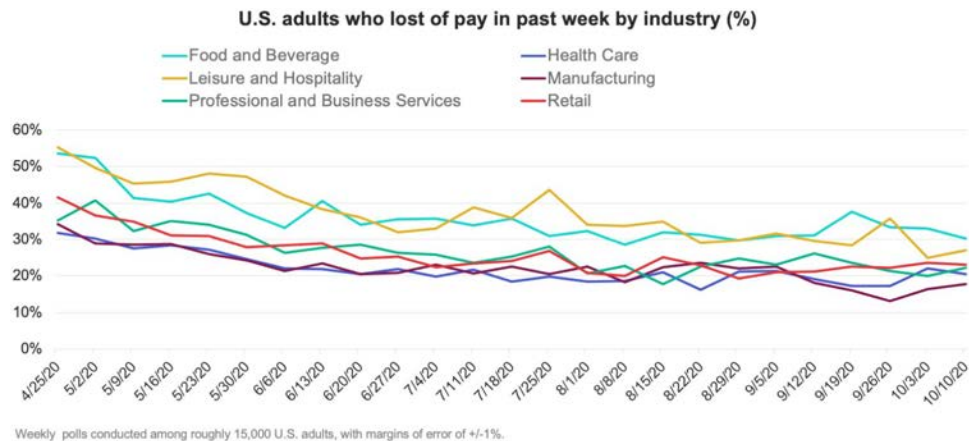
CHAPTER 2: ECONOMIC OUTLOOK IN 2021

Figure 19

High-income households are recovering faster, driving a gap across income cohorts



Share of retail workers suffering pay cuts has increased for past 6 weeks, which is not a good sign for holiday sales



CHAPTER 2: ECONOMIC OUTLOOK IN 2021

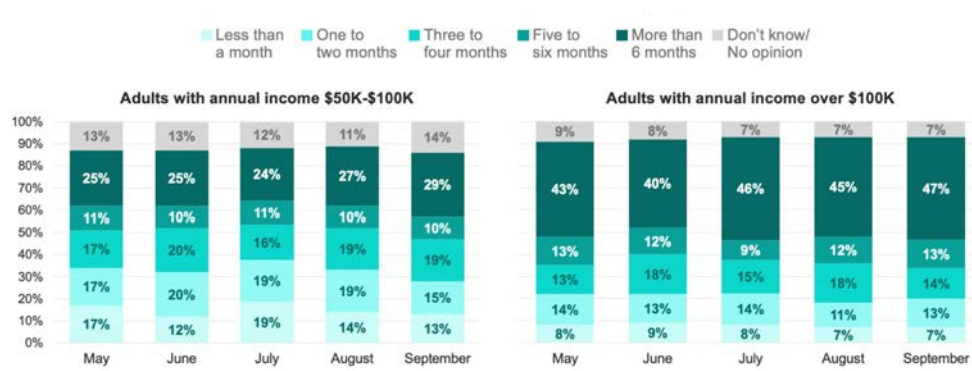
4. Savings

To date, savings across the income spectrum have held up fairly well. Higher-income households remain well-positioned to make purchases once their fears of the virus abate. However, adults living in households earning between \$50,000 to \$100,000 per year face a more challenging financial future. As previously discussed, these households continue to suffer losses in pay and income. Over time, they will have to rely on their savings to cover their spending, but 28 percent of them cannot cover their expenses beyond the end of the year.

Figure 20

Savings among higher-income households remain stable

U.S. adults were asked for how long their households can cover their basic expenses using their savings alone, without income from a job or unemployment insurance.



Monthly polls conducted among roughly 2,200 U.S. adults, with margins of error of +/-2%.

CONCLUSION

The fate of the U.S. economy rests on the consumer, and consumers are growing increasingly financially vulnerable due to continued job losses and pay cuts and an acceleration in the spread of the virus. Policymakers are unlikely to tackle other economically relevant issues until the virus is under control, including taxes, trade, health care and immigration.

The details of federal policies designed to shore up consumers' finances and limit the spread of the virus critically depend on the election outcome. At this point in time, it appears more likely that Biden will win the White House while Republicans hold onto a slimmer majority in the Senate. Given this political outcome, a second coronavirus relief bill will likely not get signed into law until after the new president and Congress are sworn into office. State and local governments are also unlikely to receive all of the aid they need to shore up their budgets, prompting many to cut back spending at the exact moment when government services and employment are most important.

Going forward, politics will continue to exert an outsized influence on the economy even after the pandemic ends. Due to structural changes in the U.S. economy, fiscal policy is likely to continue growing in importance relative to monetary policy as a tool that policymakers can use to smooth fluctuations in the business cycle.

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John Leer is an economist for Morning Consult, leading the global data intelligence company's economic research efforts. He is an authority on the effects of consumer preferences and purchasing patterns on economic and business trends as well as labor market dynamics.

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