

Economic Outlook: From Post-Election to Post-Pandemic

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2020 Elections: New President, Old Congress (in terms of balance of power)



President-elect Joe Biden

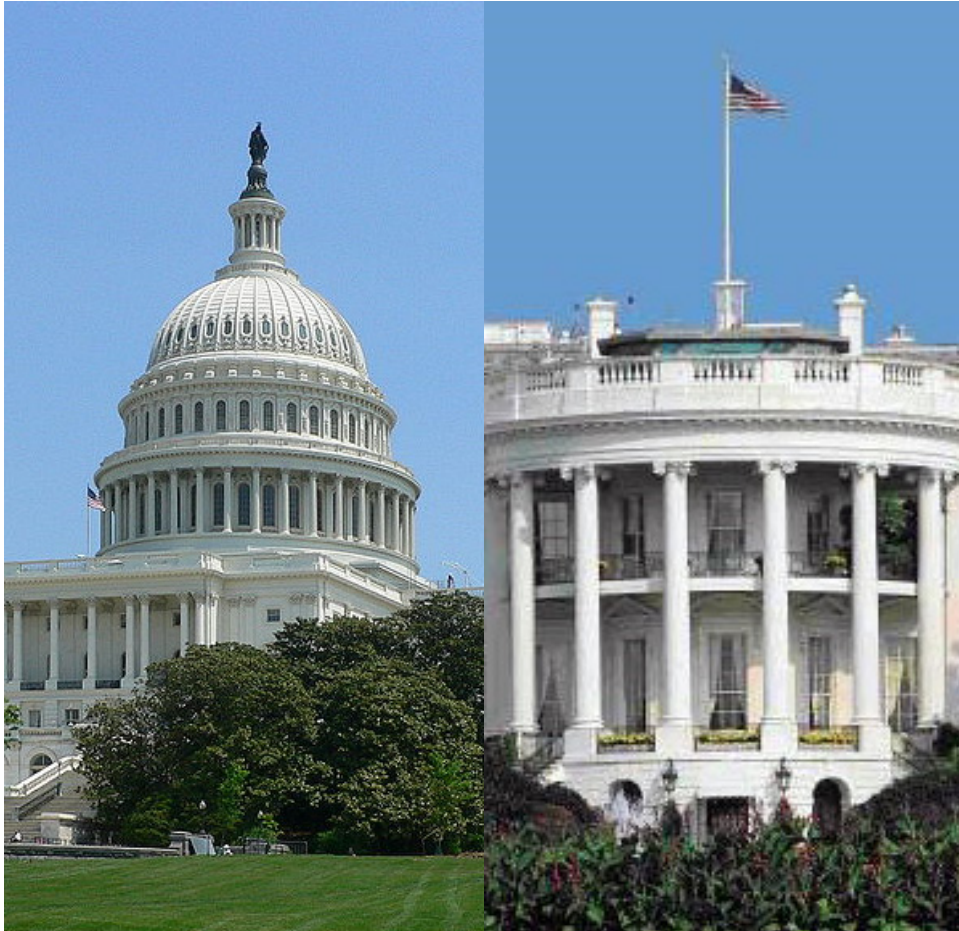
Major media outlets declare Joe Biden winner of presidential election... Inauguration January 20

Senate election: Republicans 50 (-1) vs Democrats 48 (+1)
...regular and special Georgia elections now runoffs on January 5

House election: Democrats re-win majority... 218 (-5) vs Republicans 202 (+6) with 15 districts' results pending

Recounts, runoffs and legal challenges loom

Immediate policy implications



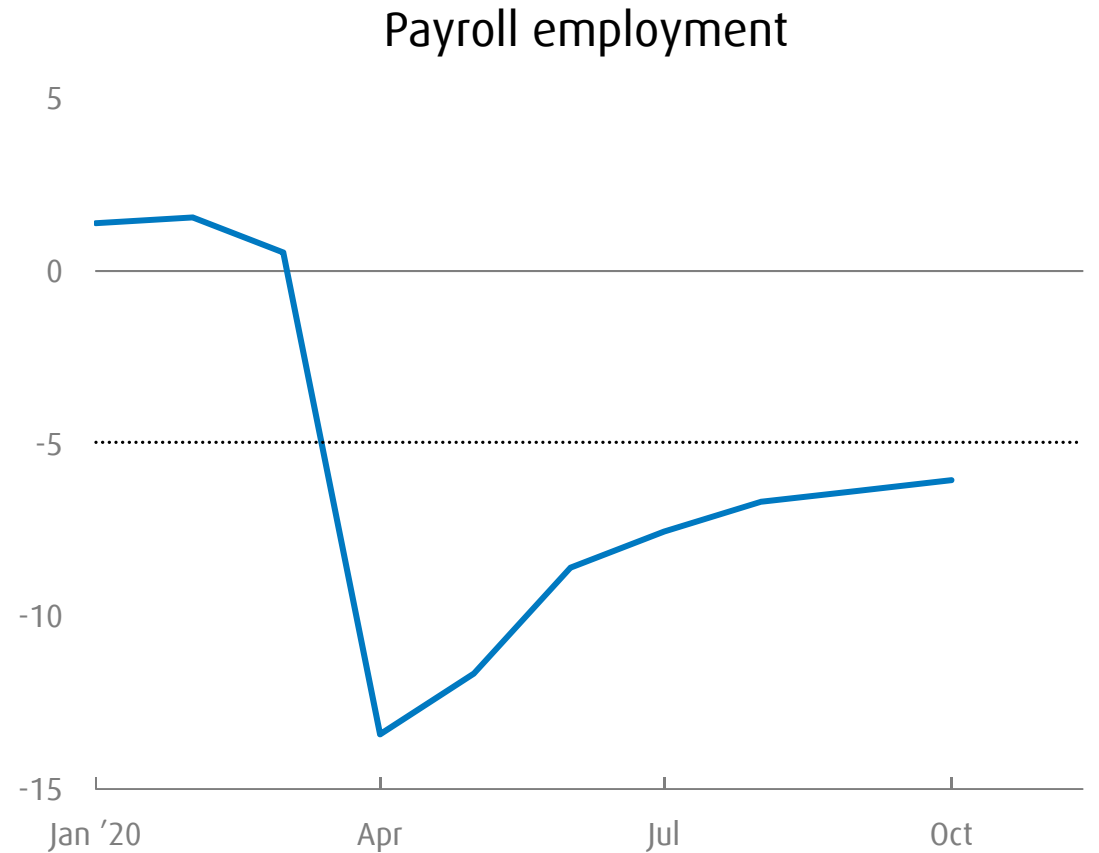
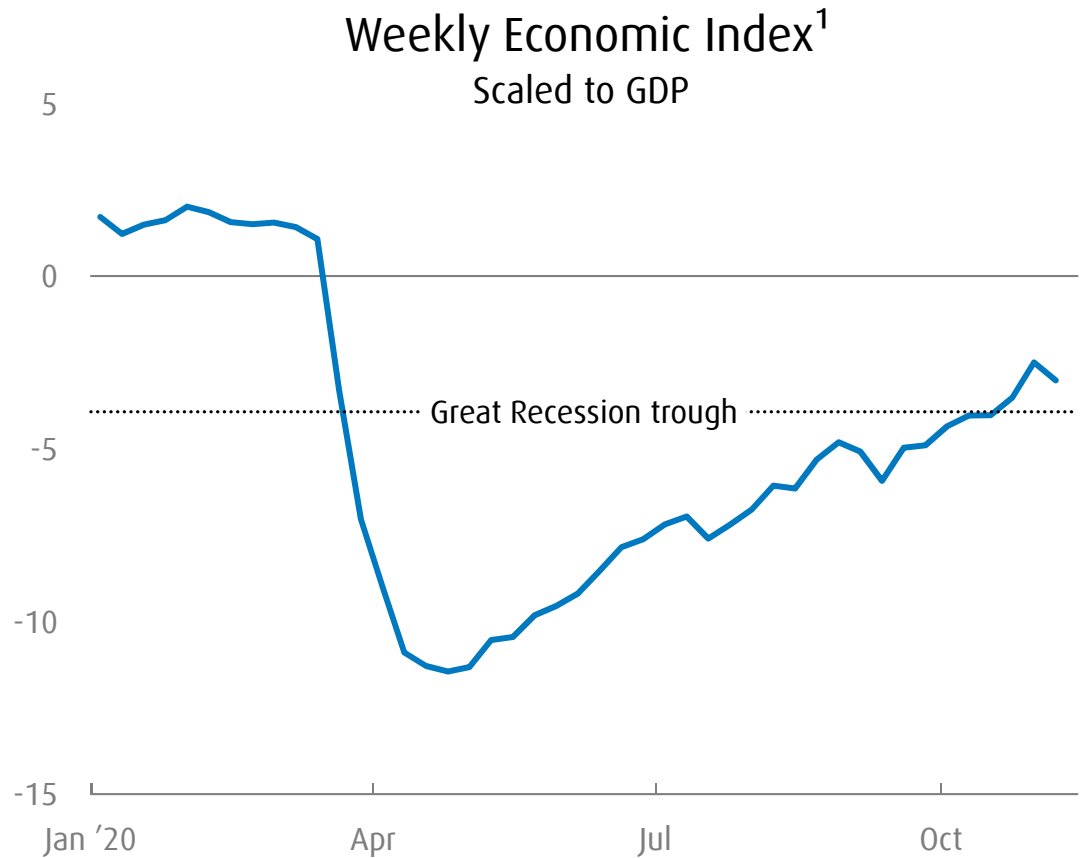
New spending bill by December 11 or government shuts down

Amid surging second wave of COVID-19, more-than-'skinny' fiscal stimulus package likely required asap

Absence of 'blue wave' victory puts hefty tax and spending increases on hold for at least next two years

Meanwhile, recovery from the deepest post-war downturn continues

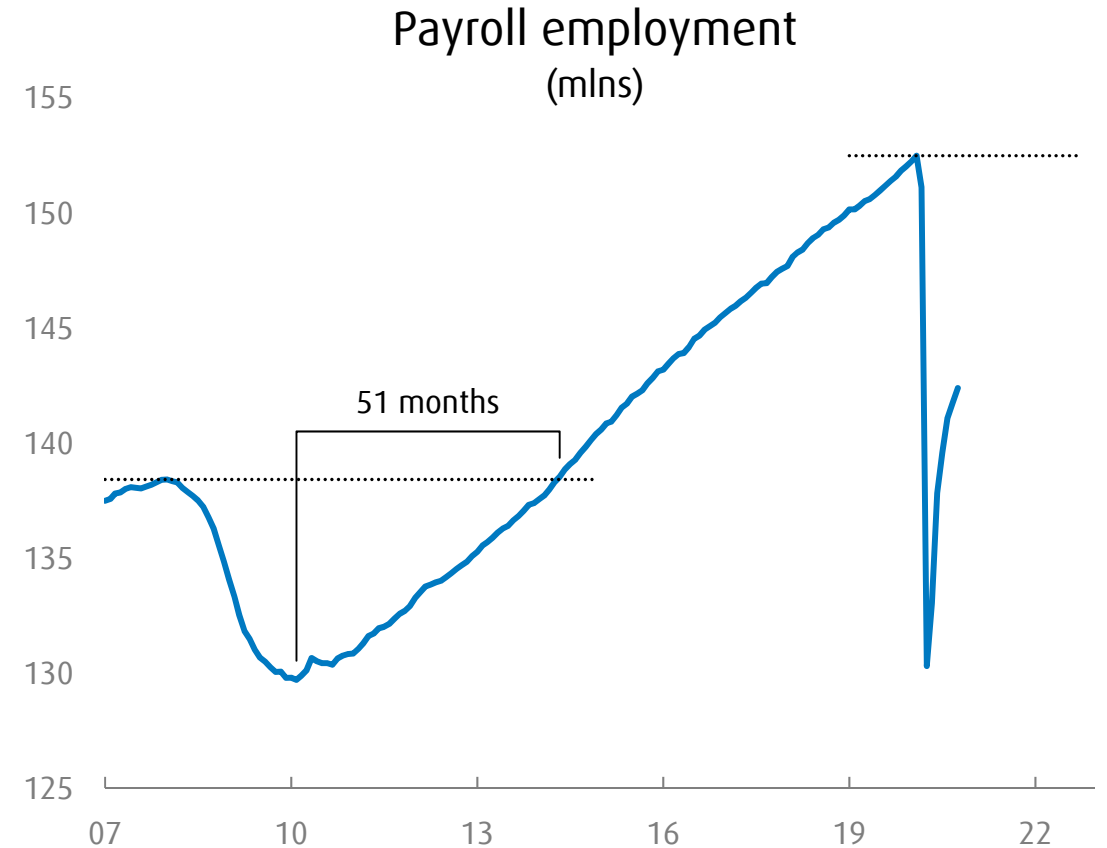
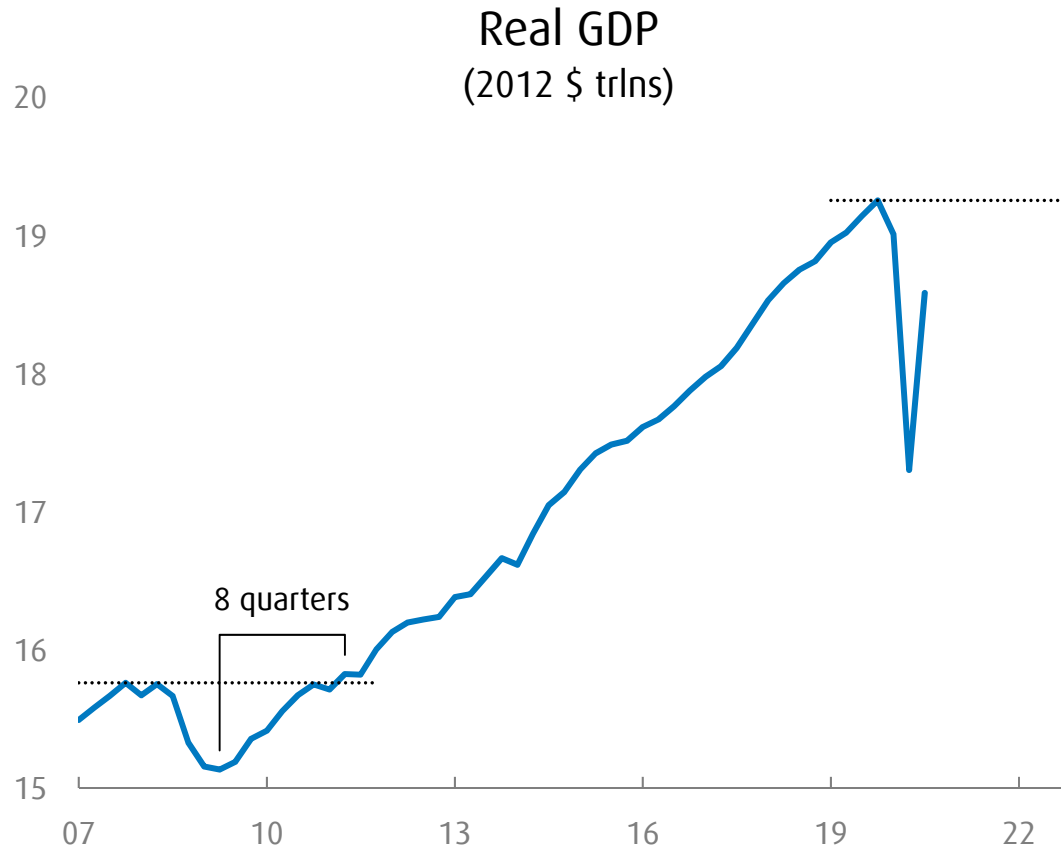
United States (y/y % chng)



Shortest recession in history

How robust will the recovery be?

United States



Should be quicker than recovery from Great Recession (2008-09)

Massive federal fiscal support so far

United States (\$ blns)



Deficit impact ¹	2020	2021	2020-30
Paycheck Protection Program and related provisions	616	13	628
Enhanced unemployment compensation	370	71	442
Recovery rebates for individuals	272	20	292
Direct assistance for state and local governments	150	— ²	150
Other spending provisions	359	218	713
Other revenue provisions	539	253	375
Total	2,306	576	2,600

CBO: Policies raise 2020 GDP by 4.2%

² between zero and \$500 mln

Fed's four-pronged easing effort

Monetary policy measures – United States (\$ blns)

I. Policy Rates	Amount ¹
March 3: -50 bps	
March 15: -100 bps to effective lower bound	
II. Quantitative Easing	
March 15: \$700 bln cap	
March 23: No cap	
June 10: Purchase pace no longer pared	
System Open Market Account	
Treasuries (~80/mo)	2,015
MBS (~40/mo)	628
Total	2,644

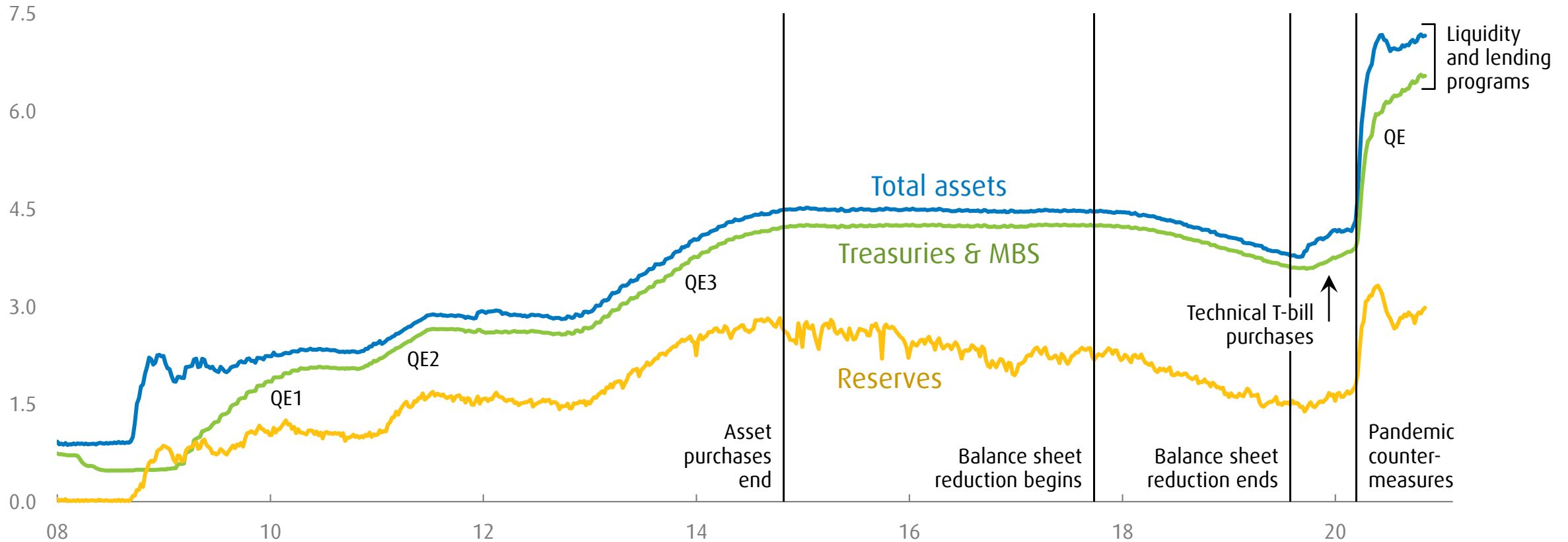
III. Liquidity Programs	Cap ²	Amount ³
Total (topped \$749 bln on June 3)		76
IV. Lending Programs		
Commercial Paper Funding Facility	100	9
Corporate Credit Facility	750	46
Main Street Lending Program	600	42
Municipal Liquidity Facility	500	17
Term Asset-backed Securities Loan Fac.	100	12
Total	2,050	125

¹ Change since March 11, as of November 4 • ² \$205 bln Treasury capital backing lending programs, \$289 bln still un-deployed • ³ As of November 4 • Totals may not add up due to rounding

Fed's balance sheet balloons... now \$7.2 trillion (up \$2.9 trillion since March 11)

United States (US\$ trlns : as of November 4, 2020)

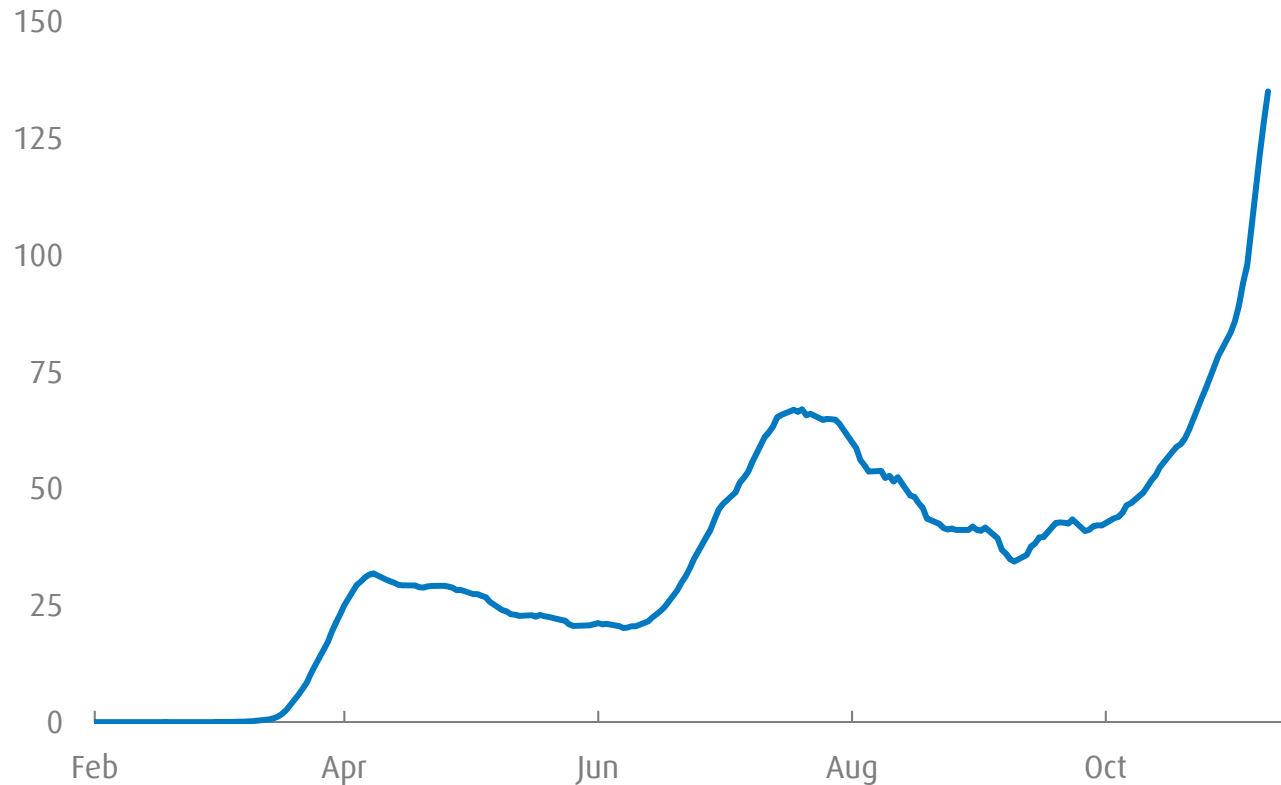
Select Fed balance sheet items



Pandemic's path puts economic recovery at risk

United States

New confirmed COVID-19 cases
2020 (7-day ma : 000s : as of November 11, 2020)



States' case rates (incl DC):

47 = Higher (>15/100k) and staying high or going up

0 = Higher but going down

3 = Lower (<15/100k) but going up

1 = Lower and staying low or going down

Some states and local jurisdictions increasing or extending restrictions

Renewed damper on business and consumer confidence

Confidence constraint

Confidence – United States



‘Confidence to crowd’ contingent on a effective, safe and widely-distributed vaccine

¹ NFIB Small Business Optimism Index (1986 = 100) • ² Conference Board Consumer Confidence (1985 = 100)

Persistent joblessness another headwind for consumer confidence/economy

Unemployment rate (percent)



2020-end 6.7%, 2021-end 5.5%

Some job losses are becoming permanent (2.4 mln since February), with many firms...

Having operating constraints (COVID protocols)

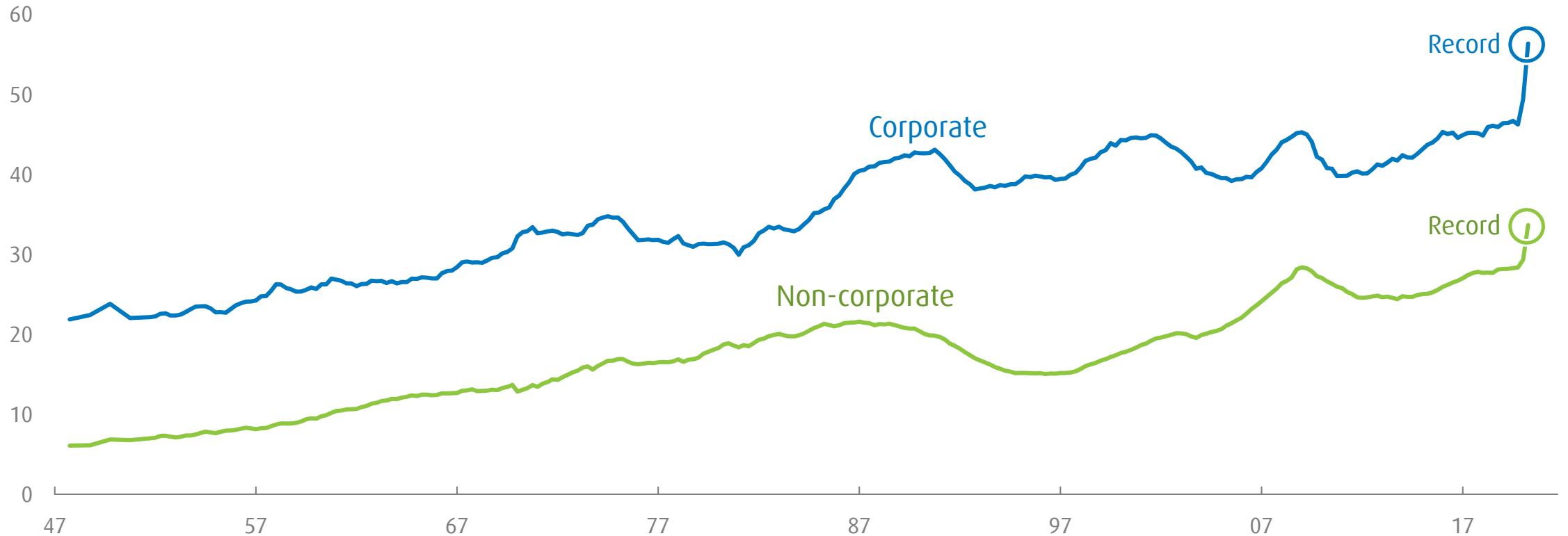
Going out of business

Paring personnel to cut costs

Filled to the brim... debt already at record highs by end of last year

United States (% of GDP)

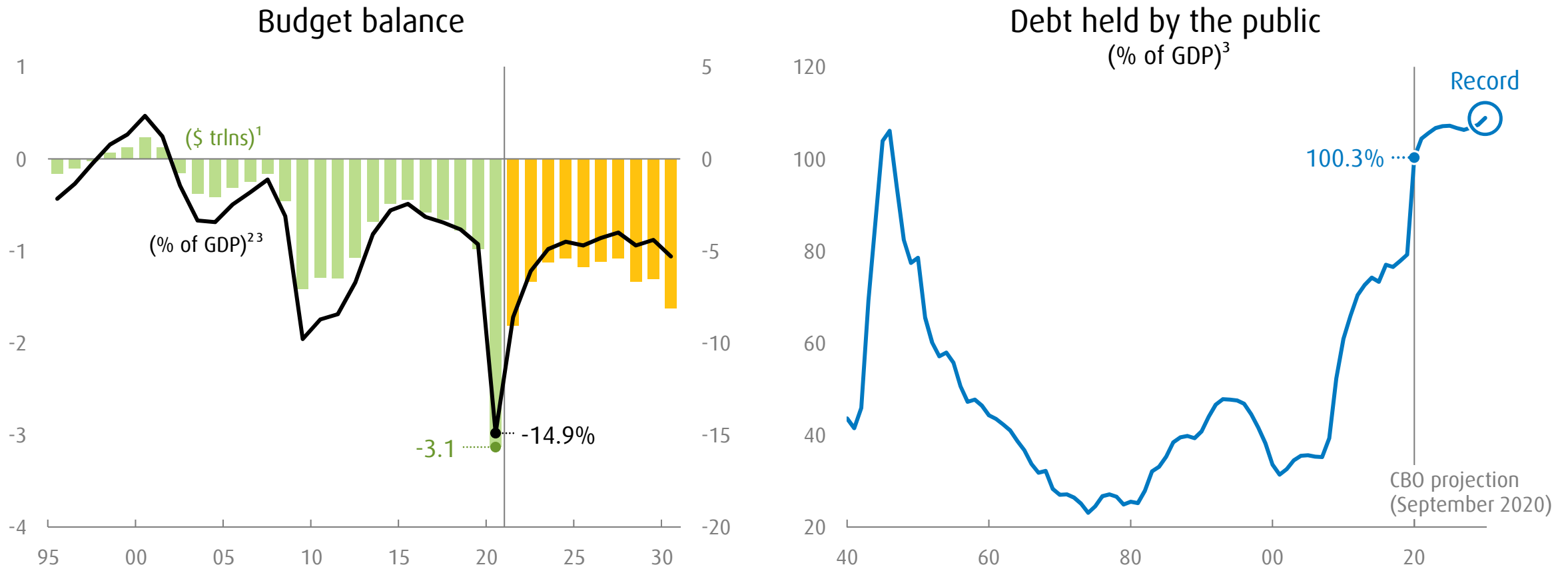
Non-financial business sector debt



Increased insolvencies and bankruptcies (despite some forgivable government loans)

Federal budget deficit at post-war highs, public debt at record highs

United States (fiscal years)



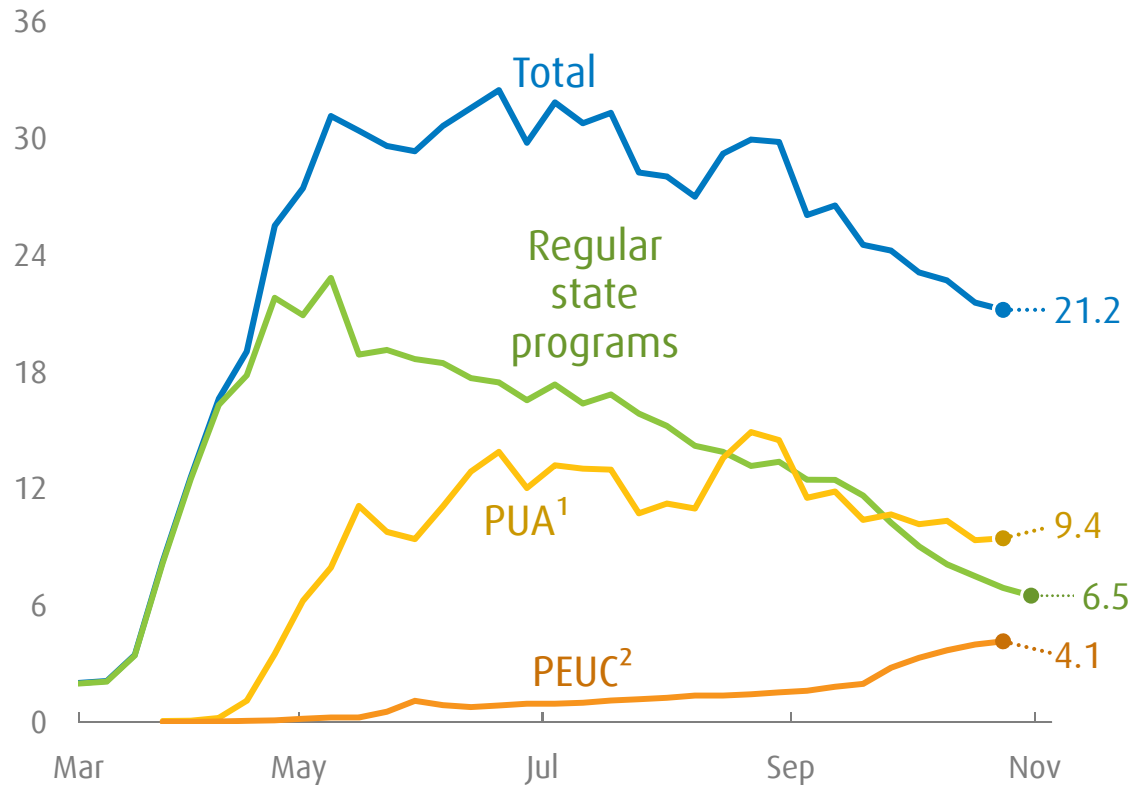
More fiscal stimulus coming (post-election)... Major fiscal consolidation a longer-term constraint

¹ (lhs) • ² (rhs) • ³ (2020 = BMO estimate)

Fiscal tailwinds ebbing

United States

Unemployment insurance recipients
2020 (mlns of persons : nsa : as of October 31, 2020)



¹ Pandemic Unemployment Assistance • ² Pandemic Emergency Unemployment Compensation

Federal \$600 UI top-up ended (as of August 1),
extended as \$300 via executive action
(only through September)

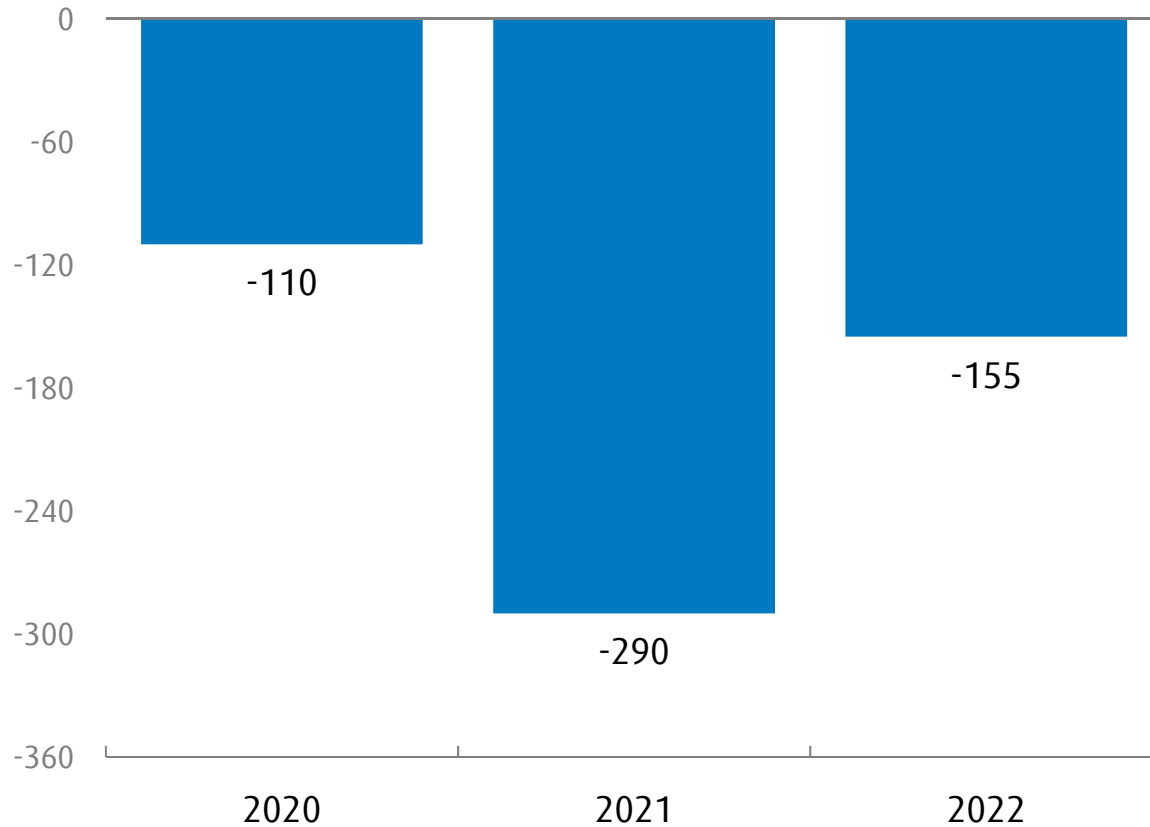
Pandemic Unemployment Assistance (PUA)
and Pandemic Emergency Unemployment
Compensation (PEUC) programs done by
yearend

Paycheck Protection Program (PPP) already
closed (August 8)

Fiscal headwinds forming

United States

Combined state budget shortfall (fiscal year : \$ blns)



Balanced budget requirements

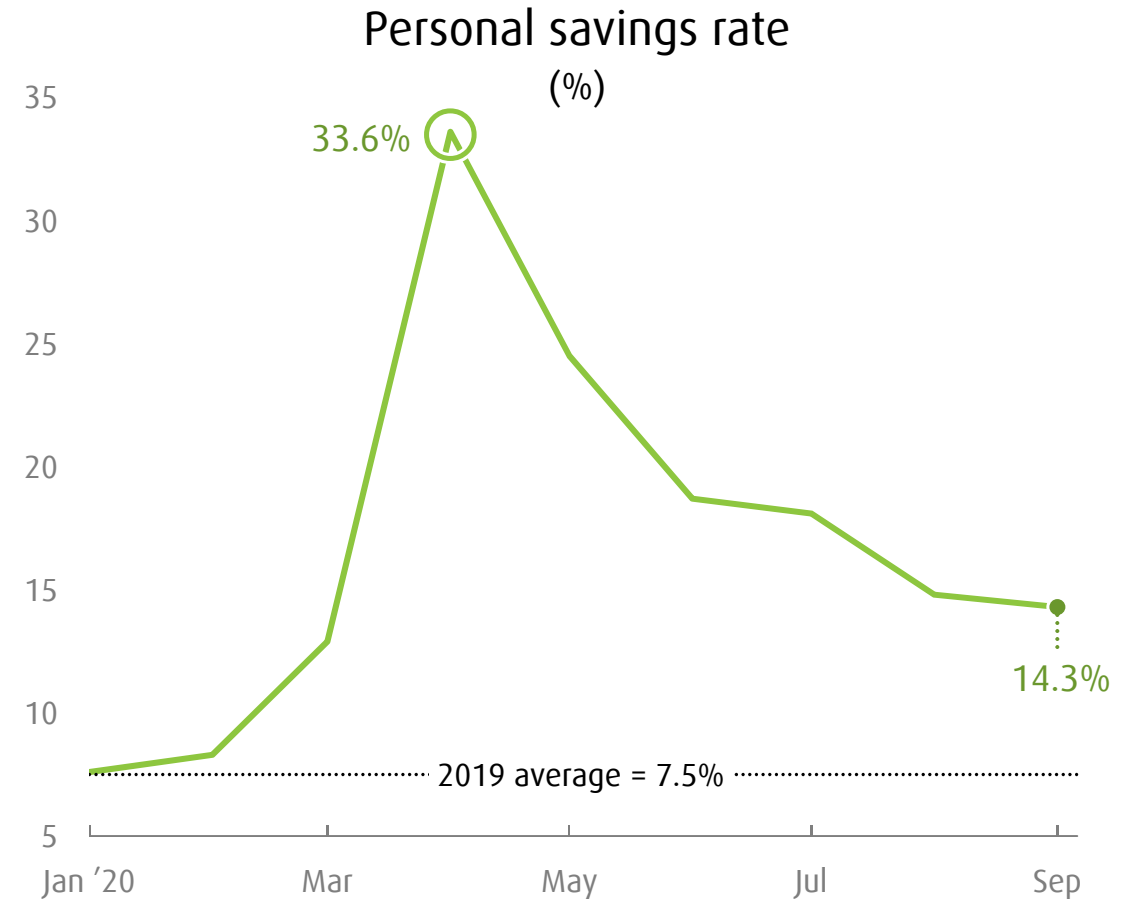
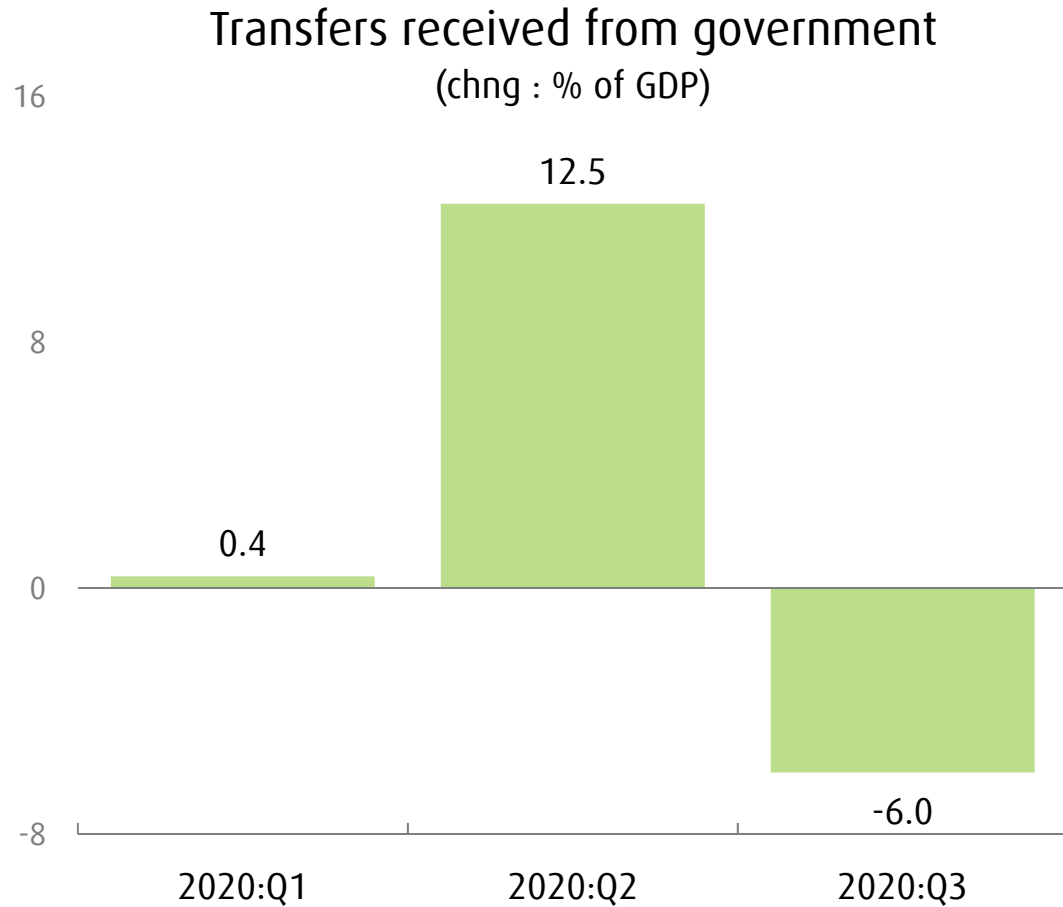
Spending cuts, tax hikes loom

National Governors Association: States need \$500 bln

US Conference of Mayors: Local governments need \$250 bln

Households had huge income support

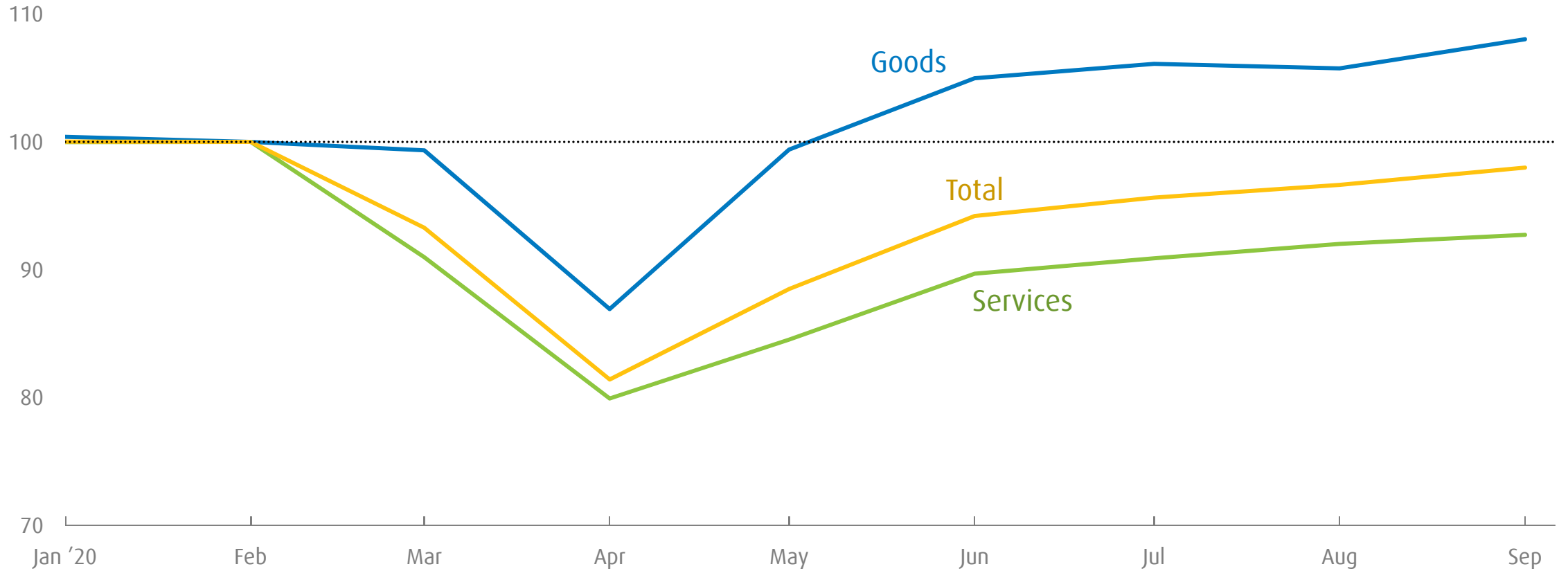
United States



'V'-shaped recovery (and then some) for spending on goods

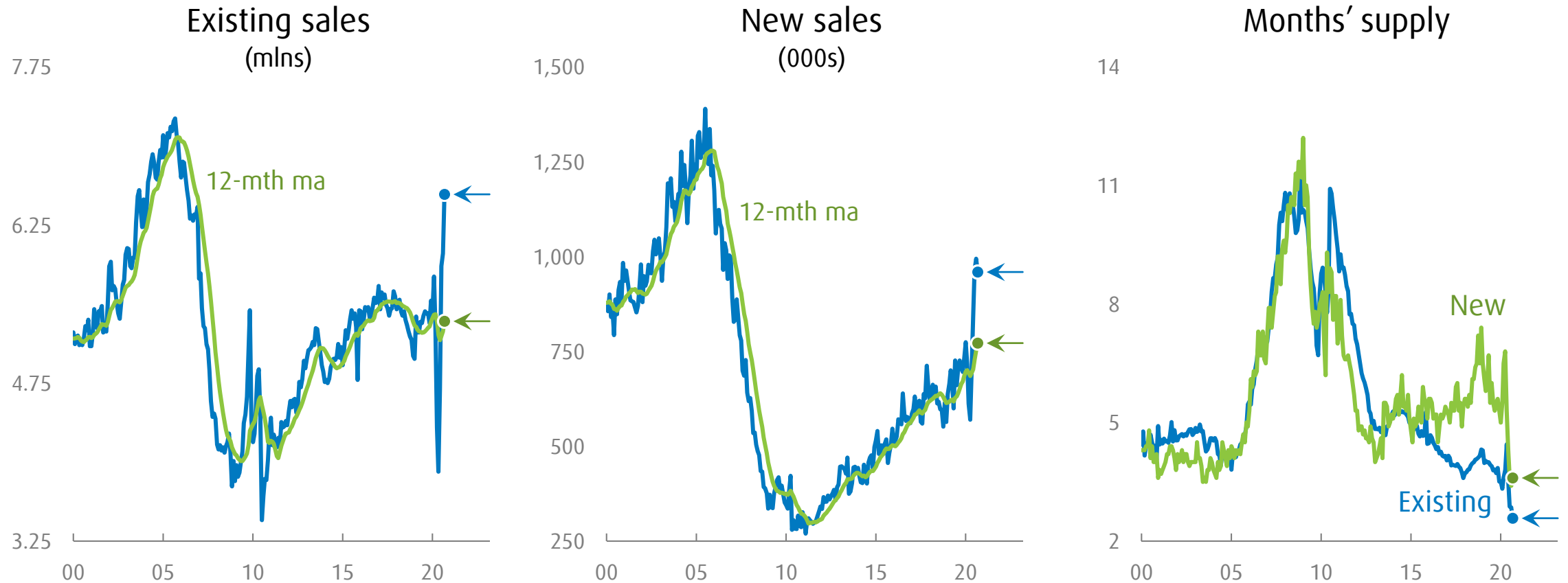
United States (February 2020 = 100)

Consumer spending



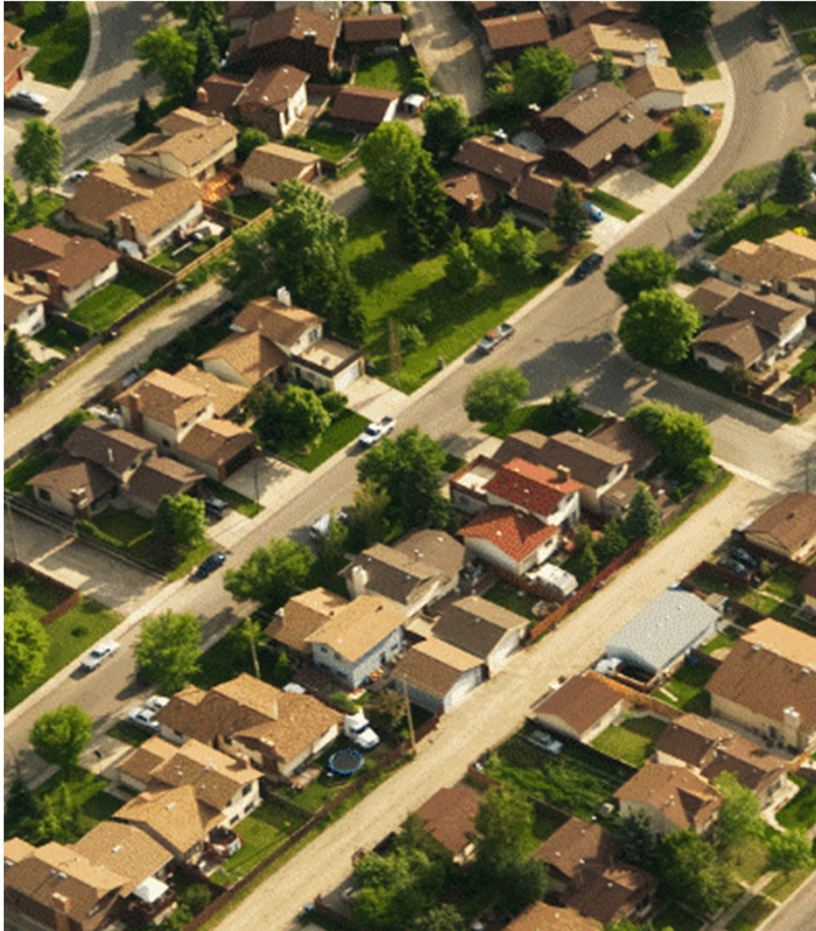
Home sales surge past pre-pandemic trend

Homes – United States



Record-low number of existing homes for sale

Post-COVID housing demand drivers



Sales pent-up during pandemic unwinding

Record low mortgage rates

Preferences shifted:

- Bigger abodes (owing to 'work from home')

- Less dense dwellings (single- over multi-family units)

- Less dense areas (suburban/exurban/rural over urban)

Pandemic could be the tipping-point for the anticipated 'millennial migration' (from renting downtown to owning in the 'burbs)

Pandemic's ultimate imprints on economic and social trends



Speed up existing trends

Technology

Slow down existing trends

Globalization

Be a catalyst for new trends

Work from home

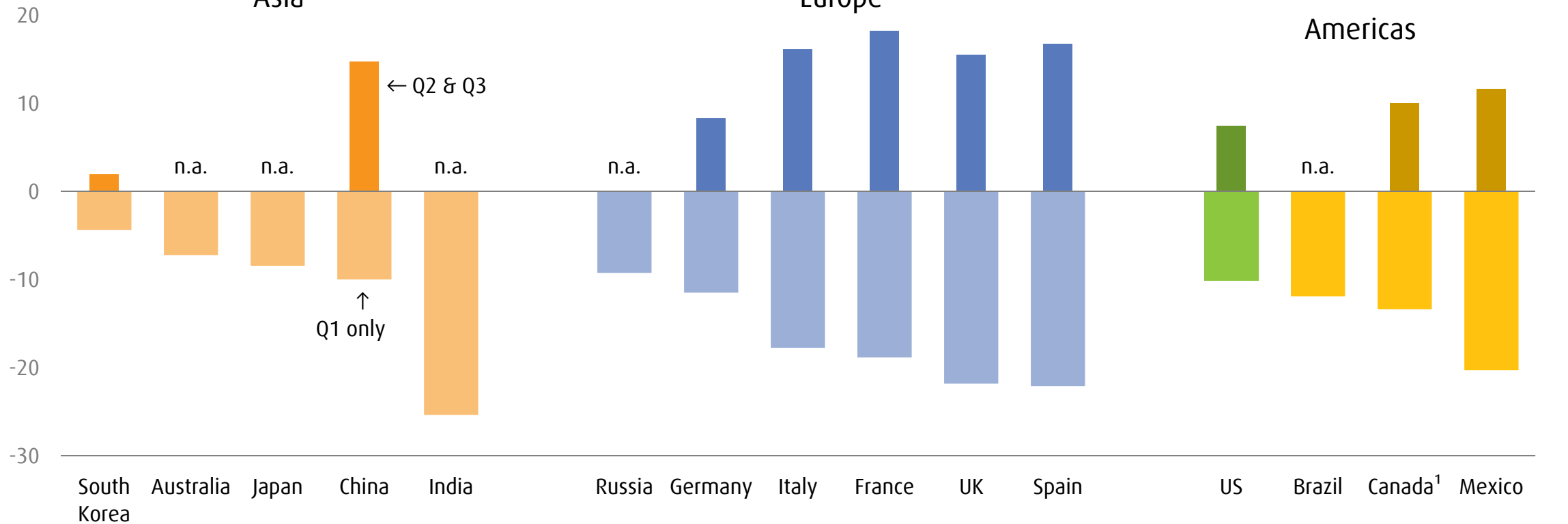
Be a tipping-point for pending trends

The 'millennial migration'

Pandemic slams global growth... Recoveries started as lockdowns lifted

(% chng)

Real GDP



Some restrictions being reinstated

¹ Q3 advanced estimate, Statistics Canada

Global growth to resume

Real GDP (y/y % chng)	BMO forecast			
	2018	2019	2020	2021
China	6.8	6.1	2.0	8.0
South Korea	2.9	2.0	-1.0	3.7
Australia	2.8	1.8	-3.5	3.7
US	3.0	2.2	-3.5	4.0
Russia	2.5	1.3	-4.1	2.8
Japan	0.3	0.7	-5.0	4.0
Germany	1.3	0.6	-5.5	5.0
Canada	2.0	1.7	-5.6	5.5
Brazil	1.3	1.1	-7.0	2.8
Italy	0.8	0.3	-8.0	7.5
France	1.8	1.5	-8.5	8.0
Mexico	2.2	-0.3	-9.0	3.5
UK	1.3	1.5	-11.0	6.0
India	6.1	4.2	-10.3	8.8
Spain	2.4	2.0	-12.8	7.2
World	3.5	2.8	-4.0	5.5

Ranked by 2020

Key to robustness of recoveries:

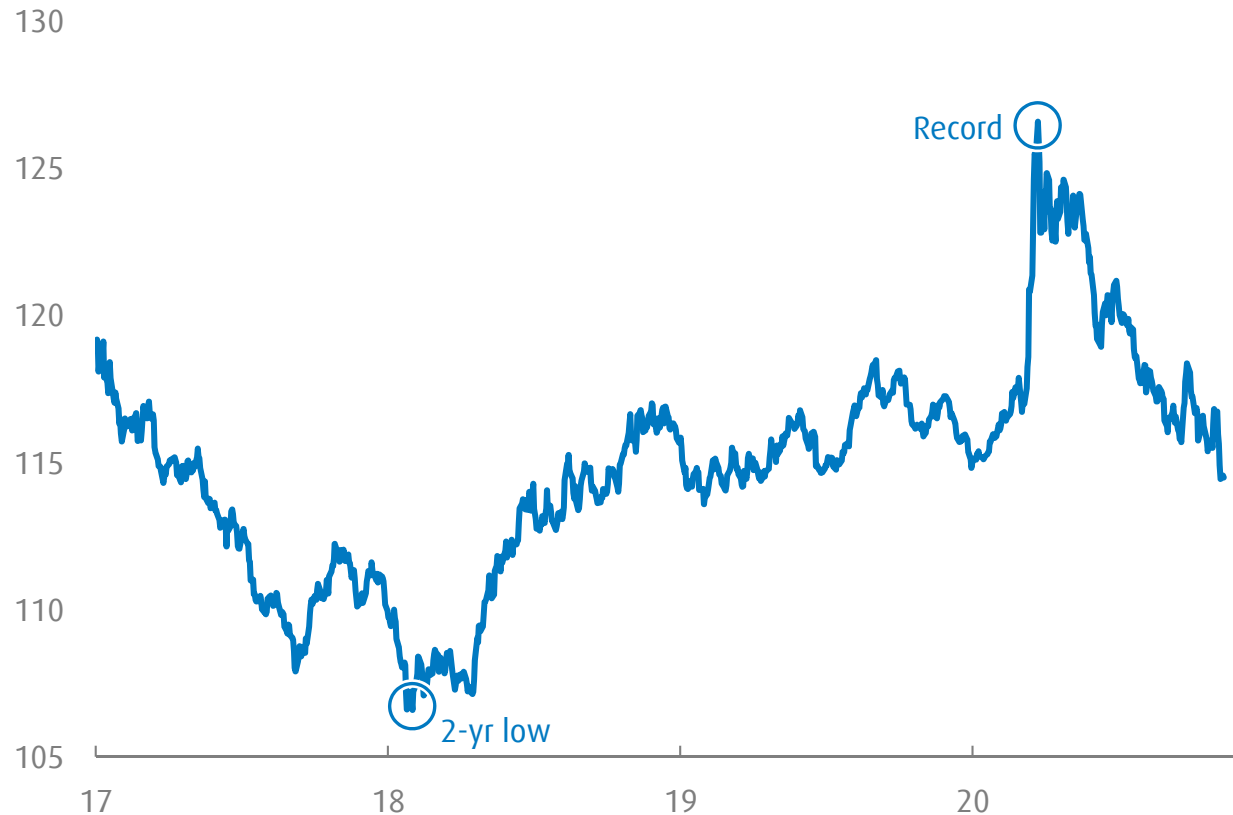
Continued (if not even more) accommodative policies

Coronavirus is contained (vaccine?)...
no return to widespread lockdowns

Pandemic's legacies (eg, joblessness, indebtedness)
don't become problematic

Greenback drops from pandemic peak... downdrift to continue amid choppy pattern

Broad trade-weighted US\$¹ (as of November 10, 2020)



¹ (January 2, 2006 = 100)

Five drivers:

Ebb and flow of perceived global economic risks

Fed easing aggressively

Pandemic hitting US hard

Massive US budget deficit
+ stubborn total trade deficit
= concerns over 'twin deficits'

Lingering political uncertainty

USMCA took effect July 1



Key elements:

Modernizes NAFTA (1994), along the lines of TPP (2016)

Autos 75% NA content from 62½%...
>40% wages of US\$16/hour or higher

Greater tariff-free access to Canada's supply-managed agricultural sectors

More stringent labor/environmental rules enforcement

6-year re-look, 16-year minimum length

Mostly business as usual...

Two-way trade with Canada worth \$725 bln annually (\$2.0 bln daily)...
Mexico \$684 bln (\$1.9 bln)

...but:

US/China trade war
+ COVID-19 pandemic
= More re-shoring potential

USMCA provides North American trade certainty in an era of global trade uncertainty

US/**Wisconsin** goods exports: Canada 17.8%/**31.1%**, Mexico 15.6%/**15.1%**

GDP recovery by end-2021

United States

Real GDP (y/y % chng)



Initial growth rates will look stellar
(owing to base effects)

Some sectors will lead a lot
(eg: health care and social assistance; information;
food and beverage stores; warehousing and storage)

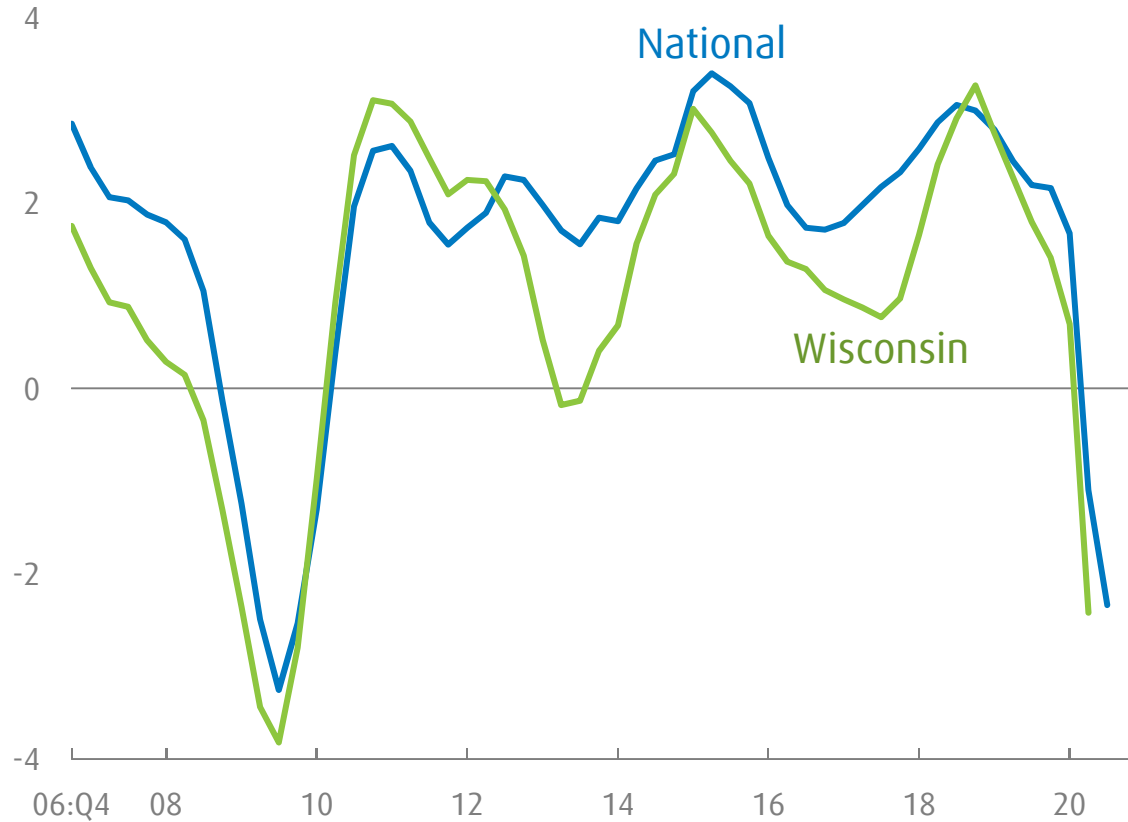
Some sectors will lag a lot
(eg: accommodation and food services; arts,
entertainment and recreation; air transportation; mining)

Economic slack will linger afterwards

Wisconsin's worse downturn

United States (4-qtr ma : y/y % chng)

Real GDP



Depth of recession (Q1 and Q2 alone)

US: -10.1%
WI: -11.4%

Slower pre-pandemic momentum

US-China trade war pushed factory sector into recession

Wisconsin's industrial mix

Relatively high exposure to sectors with deepest downturns... durable manufacturing... health care & social assistance

Relatively low exposure to sectors with shallowest slumps... information... real estate, rental & leasing

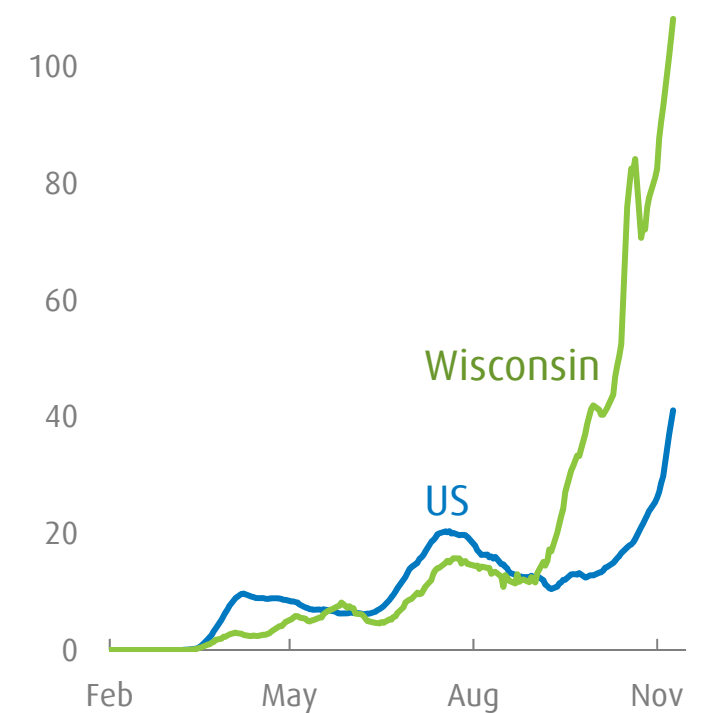
Payrolls rebound... but recovery's robustness jeopardized

United States

Employment (thousands)					
Region	February (level)	March-April (chng)	Jobs lost (%)	May-September (chng)	Jobs recovered (%)
National	152,463	-22,160	-14.5	11,432	51.6
Wisconsin	2,994	-476	-15.9	263	55.3
Select Northeastern Wisconsin MSAs ¹					
Appleton	127	-18	-14.5	9	46.7
Fond du Lac	49	-8	-15.2	5	69.3
Green Bay	182	-26	-14.3	15	57.5
Oshkosh-Neenah	97	-13	-13.3	9	71.3
Total	455	-65	-14.2	38	58.6

US recovery rate now 54.5% (October)

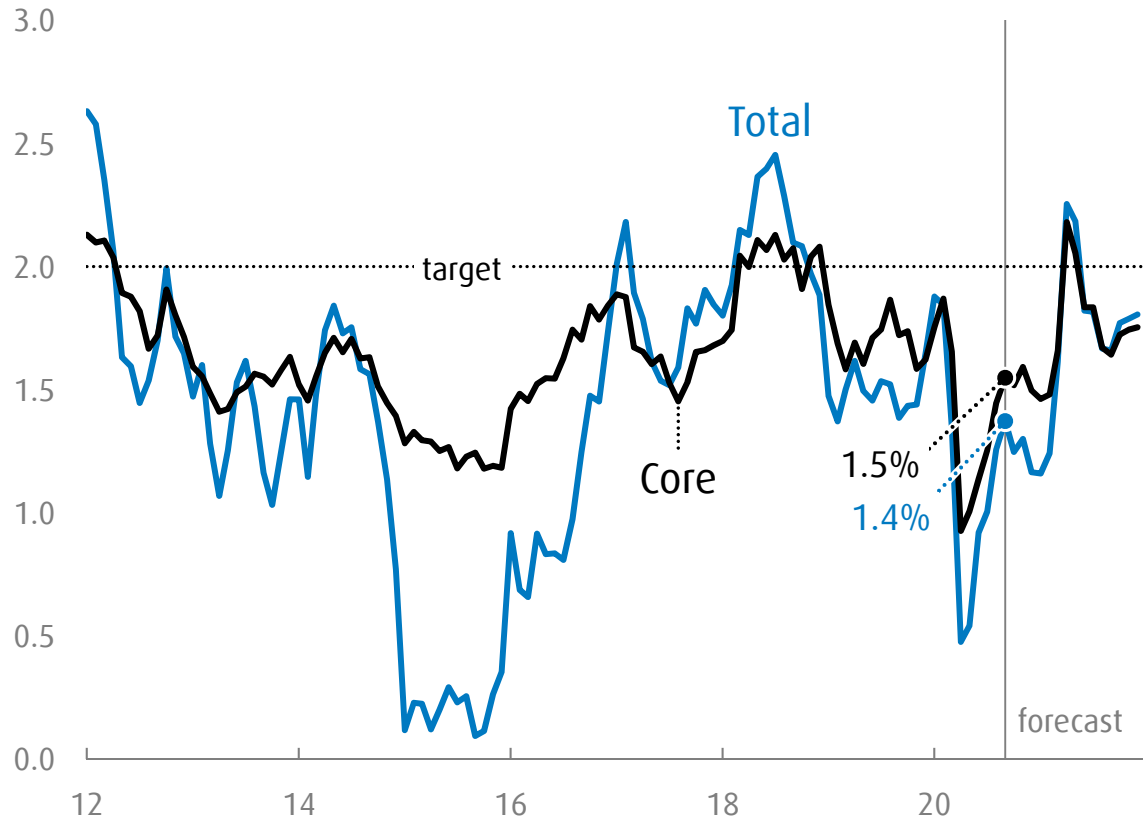
New confirmed COVID-19 cases
2020 (7-day ma : per 100,000:
as of November 11, 2020)



Inflation plunges... to remain well contained

United States

PCE price index (y/y % chng)



Broad downward pressure due to economic slack

Secular forces of disinflation to counter cyclical pressures: Technology (e-commerce, telework, automation, AI)... Demographics

Risks:

Scattered pockets of upward pressure caused by capacity constraints, supply shortages, PPE costs

Medium-term legacy of massive fiscal and monetary policy stimulus

Fed's longer-run goals redefined

United States



Federal Reserve Chair Jerome Powell

Maximum employment:

Policy decisions informed by “shortfalls” of employment from its maximum level, no longer “deviations”

Means no preemptive tightening as jobless rate approaches and even falls below natural rate (4.1%) again

Price stability:

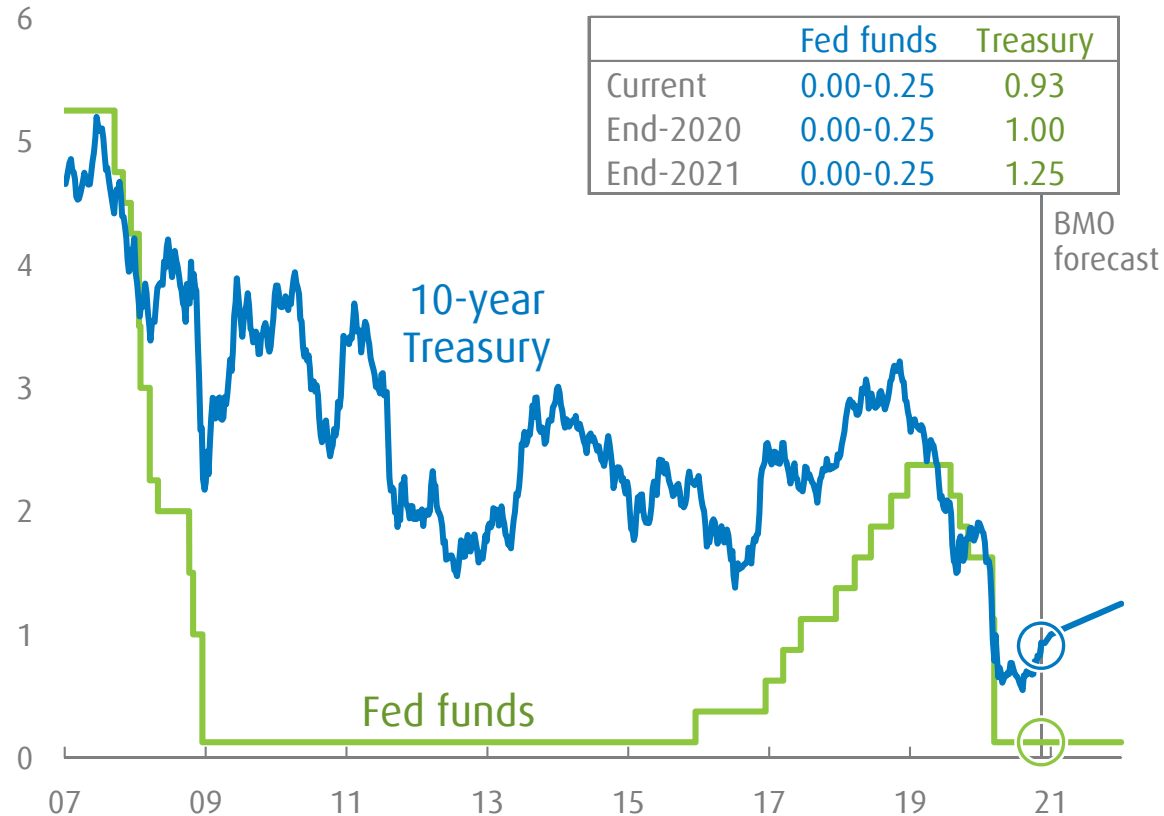
Inflation that “averages” 2% over time

Policy will target “moderately above 2% for some time” after periods of persistent sub-2% inflation

Policy rates now low for even longer

United States

Interest rates (% : as of November 11, 2020)



[history] weekly averages • [forecast] monthly averages

FOMC projects no rate hikes until after 2023:

Unanimous view for 2020 and 2021... only 1 of 17 participants project hikes in 2022 with 4 in 2023

Mild bond yield rise:

Investor risk appetites whetted as economic recovery continues... amid persistent big budget deficits

Bottom line



GDP recovery by 2021-end amid mixed industry performance...
Wisconsin to lag

Employment recovery by mid-2023 with higher-running jobless rate

Inflation pressures well contained (for now)

Fed rate hikes on hold (2024 at the earliest)

Key risks:

Pandemic's path, lingering political uncertainty, US-China relations,
extreme climate events

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