Why the US economy won't gain any traction until 2021

By Mark Zandi
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This has been a rotten year, and any chance of it ending on a high note has faded. The Covid-19 pandemic is intensifying, rancor over the US presidential election is mounting, and lawmakers haven't come to terms on another fiscal rescue package to shore up the fragile economy. It is difficult to see how the economy will be able to gain any traction until next year when the pandemic and election are hopefully in the history books.

The economy's travails are evident in the Back-to-Normal index (BNI) developed by Moody's Analytics and CNN Business. The index is a compilation of a wide range of economic statistics available from the government and third-party sources. The BNI measures how the economy is performing compared to its pre-pandemic normal. Currently, the index is sitting at just over 80%. In other words, the economy is operating 20% below where it was when the pandemic hit back in March. That is a long way from normal, and only about halfway back from where the economy was at its April low.

The BNI also indicates the economic recovery has more or less stalled since the summer. The index isn't much higher today than it was back in June when it was closer to 75%. The re-intensification of the pandemic has been a major cause of this painfully slow recovery. There is a clear relationship between the health care crisis created by the pandemic and the economic crisis: More infections result in a weaker economy.

Based on our analysis tying confirmed Covid-19 infections with unemployment rates across states and since the pandemic began, rising infections result in fewer jobs and higher unemployment one month later. This relationship is not materially different between states like New York that have aggressively shut down businesses and states like Florida that have kept businesses largely open. We also found that it isn't true that the recession caused by the pandemic was our own doing because we shut businesses down. There would have been a recession regardless, as worried households and businesses would have pulled back on their activities whether or not businesses were shut down.

It is thus not surprising that as infections have significantly increased across Europe over the past several weeks, the European economy is faltering again. Europe had meaningfully brought down infections with its stringent lockdowns early on in the pandemic, and its economy had begun a strong comeback in the summer, but that recovery looks to be flagging with the re-intensifying pandemic. The same dynamic also appears to have begun here at home. As people start to move indoors with the colder weather, infections in recent weeks are up in much of the country. This doesn't bode well for our economic recovery.

The impending presidential election could also weigh on our economy. The process of electing a president has historically been neither here nor there when it comes to the economy. Even the highly contentious George W. Bush vs. Al Gore election in 2000 had no meaningful impact, save perhaps for a few bad days in the stock market, which was already struggling with the dot-com stock bust. This time may be different. The nation feels like it could boil over if we have a close election and one side or the other believes that the election is being stolen.

This would be much less of a concern if the winner wins handily, making it indefensible to question the outcome. Current polling suggests this may happen. However, our election model of the state Electoral College, which takes into account a range of political factors, including previous state voting patterns and the President's approval rating, and a range of economic factors, such as unemployment, housing and stock prices, suggests the results will be much closer. Assuming that turnout by Republicans and Democrats isn't lopsided, then our modeling shows Biden winning the Electoral College with 279 votes. Of course, 270 votes are needed to win. If the election is this close, it seems certain to be contested, which could make the next couple of months difficult as the mess gets sorted out. There is nothing but downside to the economy in such a disquieting scenario.

But perhaps the most serious blow to the economy as this monumental year ends will be the failure of President Trump and Congress to come to terms on providing more help to those hit hardest by the pandemic. It makes economic sense for lawmakers to agree on legislation providing substantial additional fiscal support, including more aid to the unemployed, small businesses, the airlines, state and local governments and a long list of others. Without these additional funds, the already fragile recovery threatens to come undone. It also makes political sense given the approaching election and the need for lawmakers to demonstrate that they have voters' backs. Yet a deal has not come to fruition and it appears we will have to wait until the next president and Congress take office before any real help is put in place.

Until then, much could wrong, driving the economy off the proverbial rails. It would be prudent to buckle in.

https://www.cnn.com/2020/10/21/perspectives/us-economy-pandemic-recovery/index.html