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A REVISED 2021 GROWTH FORECAST

Additional fiscal spending supports increasing the expected range for U.S. GDP growth.

We're increasing our U.S. growth forecast for 2021 from the 3 - 4% range to 5 - 6%. In December, we expected the economy to rebound as the virus-induced shutdown ended — and we expected growth to be strong and well above trend. We've always maintained that the Covid-19 recession was different from past recessions, which are typically led by excesses in either consumer or corporate behavior. But the Covid-19 recession was a shock to the economy as the spread of the coronavirus prompted governing officials to implement a sudden stop in the functioning of the global economy. Our base case heading into 2021 was that, as economic activity normalized after widespread vaccine administration, pent-up demand for services would likely result in a strong economic rebound. We also expected an elevated consumer savings rate to support this.

Since our initial forecast, there have been two new developments. First, a \$900 billion fiscal package was passed in the lame duck congressional session. This fiscal spending package is larger than we had expected in our earlier forecast and will add to growth in 2021. Drivers of higher growth include an extension of unemployment benefits and a one-time stimulus payment of \$600/person (for qualifying individuals), which will be additive to growth, as well as additional relief for small businesses impacted by the virus through PPP (Paycheck Protection Program) loans. These programs will help increase people's disposable income and could increase spending when restrictions on economic activity are lifted later in the year.

After the Georgia Senate elections, resulting in Democratic control of the Senate, the likelihood of more fiscal spending under the new administration has also gone up. President Biden has proposed a new Covid relief bill, which could add another \$1.9 trillion in stimulus. We think that a package this large is unlikely to pass because of the razor-thin Democratic majority in both the House and the Senate. But it's possible that we could see another \$900 billion in Covid relief for state and local governments, and to help with vaccine distribution. There's also the prospect of a second proposal later in the year to address other administration agenda items, such as spending on infrastructure and research and development.

The combined impact of the December Covid relief bill and the Biden administration's proposal (which includes more direct payments to households) could add another sizeable boost to spending this year and in 2022. Studies reveal that those in lower-income groups traditionally spend most of their stimulus payments, while those in middle-income groups tend to save them. Even after assuming a conservative multiplier for spending from the additional relief packages, we expect growth to increase this year and have consequently raised our growth estimates for 2021 from 3 - 4% to 5 - 6% for 2021. Of course, we're mindful of risks to our estimates—a lot depends on the successful distribution of vaccines.

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