

Special Commentary — January 21, 2021

## The Economic Outlook: What Could Possibly Go Wrong? Part I: Introduction to the Series

### Summary

The U.S. economy went on a roller-coaster ride in 2020 due to the COVID pandemic. Looking forward, we expect that U.S. economic growth should strengthen significantly later this year as vaccines become widely deployed, which should allow the economy to fully re-open. But the history of economic forecasting is replete with examples of projections that went sharply awry. In a series of reports that we plan to publish in coming weeks, we hope to shed some light on risks, other than the uncertain trajectory of the pandemic, that the U.S. economy could face in the next year or two.

Economist(s)

#### **Jay Bryson**

Chief Economist | Wells Fargo Securities, LLC  
jay.bryson@wellsfargo.com | 704-410-3274

All estimates/forecasts are as of 1/21/2021 unless otherwise stated. 1/21/2021 6:45:00 EST. Please see page 4 for rating definitions, important disclosures and required analyst certifications. Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

**This report is available on Bloomberg WFRE**

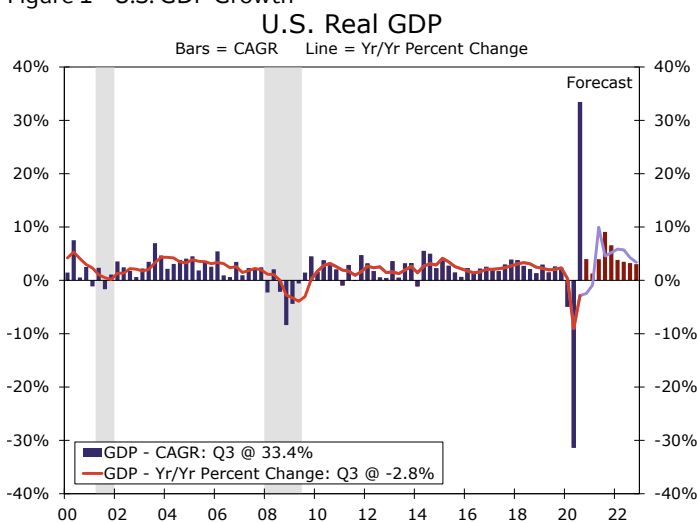
This document is for content@fxstreet.com and should not be distributed further.

## Economic Growth in Most Economies Should Bounce Back Sharply in 2021

Real GDP in the United States experienced a roller coaster ride in 2020 (Figure 1). The economy essentially ground to a halt in the second quarter - real GDP nosedived at an annualized rate of 31.4% - as the pandemic took hold in the United States. But growth came roaring back in the third quarter as restrictions were relaxed and the economy re-opened. Economic activity decelerated sharply in Q4, but we project that real GDP growth remained positive at roughly 4%.

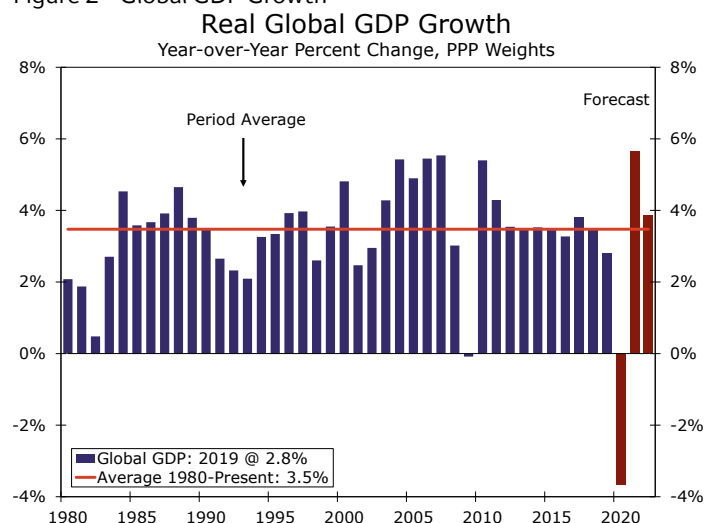
Looking into 2021, we forecast that GDP growth will remain slow in the first part of the year due largely to renewed restrictions that many local officials have re-imposed due to the renewed surge in COVID cases. But as an increasing number of individuals receive vaccines, restrictions should start to ease and the battered service sector should return to some semblance of "normal." We forecast that pent-up demand for postponed spending on services (e.g., restaurant dining, personal travel, etc.) will lead real GDP to grow at an annualized rate in excess of 7% in the second half of the year relative to the first half. We also forecast that the economy will continue to expand at an above-trend rate of 4.8% in 2022.

Figure 1 - U.S. GDP Growth



Source: U.S. Department of Commerce and Wells Fargo Securities

Figure 2 - Global GDP Growth



Source: International Monetary Fund and Wells Fargo Securities

Most other foreign economies experienced similar dynamics in their GDP growth rates. That is, most foreign economies suffered steep declines in GDP in Q2-2020 with subsequent strong rates of growth in the third quarter. We estimate that global GDP contracted 3.7% in 2020, by far the sharpest decline in at least 40 years (Figure 2). But economic activity in most foreign economies should also accelerate considerably later this year as those economies re-open due to the widespread deployment of vaccines that we anticipate. The pandemic originated in China, but the country has been successful, at least relative to most other major economies, in subsequently keeping it suppressed. We forecast that the Chinese economy will grow roughly 9% in 2021, and we look for real GDP in the Eurozone and the United Kingdom, which both contracted considerably in 2020, to grow 3.2% and 2.4% respectively this year. In sum, we look for the global economy to expand nearly 6% in 2021, following its sharp contraction last year.

### But What Could Go Wrong?

Obviously, the economic bounce-back that we forecast for 2021 could be delayed even longer if the deployment of vaccines proceeds at a slower-than-expected pace and/or a more virulent strain of the virus appears. But are there risks aside from COVID that could cause the U.S. economy to significantly under-perform our expectations over the coming year or two?

In a series of reports that we plan to publish in coming weeks, we intend to address a number of risks that the economy could potentially experience in the foreseeable future. We will begin our series by analyzing whether inflation, which has long been dormant, could make a meaningful comeback this year and next. If it does, market-determined interest rates could snap significantly higher and profit margins could potentially be squeezed. Other potential risks that we will cover in the series include

fiscal deficits and debt in the United States, the debt-servicing abilities of American households, and risks related to commercial and residential real estate in the United States. We will also address the potential for premature fiscal tightening in the United States and in major foreign economies, which could lead to significantly slower global economic growth than we currently forecast, and we will analyze the potential for a debt crisis in China.

To reiterate, our base case forecast looks for U.S. real GDP to grow at an above-trend rate of 4.6% this year and at an even stronger rate of 4.8% in 2022. These projections are more robust than the consensus view, but most forecasters look for above-trend U.S. economic growth in both 2021 and 2022 as well. Specifically, the Blue Chip panel of economic forecasters looks for 4.2% real GDP in the United States in 2021 and 3.4% in 2022. But the history of economic forecasting is replete with examples of projections that went sharply awry, because of developments that were in some cases unknowable in advance (e.g., the OPEC oil boycott in 1973-74) or in other cases were caused by evident imbalance in the economy (i.e., the housing bubble in the early years of the 20th century). What are the potential risks to the economic outlook to which readers should be cognizant? We hope to shed some light on that question in this forthcoming series of reports.

**Subscription Information**

To subscribe please visit: [www.wellsfargo.com/economicsemail](http://www.wellsfargo.com/economicsemail)

The 2021 Annual Economic Outlook: *Aftershocks and Divergence in the Post-Pandemic Economy* is available at [wellsfargo.com/economicoutlook](http://wellsfargo.com/economicoutlook)

Via The Bloomberg Professional Services at WFRE

And for those with permission at [www.wellsfargoresearch.com](http://www.wellsfargoresearch.com)

**Economics Group**

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	<a href="mailto:jay.bryson@wellsfargo.com">jay.bryson@wellsfargo.com</a>
Mark Vitner	Senior Economist	(704) 410-3277	<a href="mailto:mark.vitner@wellsfargo.com">mark.vitner@wellsfargo.com</a>
Sam Bullard	Senior Economist	(704) 410-3280	<a href="mailto:sam.bullard@wellsfargo.com">sam.bullard@wellsfargo.com</a>
Nick Bennenbroek	International Economist	(212) 214-5636	<a href="mailto:nicholas.bennenbroek@wellsfargo.com">nicholas.bennenbroek@wellsfargo.com</a>
Tim Quinlan	Senior Economist	(704) 410-3283	<a href="mailto:tim.quinlan@wellsfargo.com">tim.quinlan@wellsfargo.com</a>
Azhar Iqbal	Econometrician	(212) 214-2029	<a href="mailto:azhar.iqbal@wellsfargo.com">azhar.iqbal@wellsfargo.com</a>
Sarah House	Senior Economist	(704) 410-3282	<a href="mailto:sarah.house@wellsfargo.com">sarah.house@wellsfargo.com</a>
Charlie Dougherty	Economist	(704) 410-6542	<a href="mailto:charles.dougherty@wellsfargo.com">charles.dougherty@wellsfargo.com</a>
Michael Pugliese	Economist	(212) 214-5058	<a href="mailto:michael.d.pugliese@wellsfargo.com">michael.d.pugliese@wellsfargo.com</a>
Brendan McKenna	International Economist	(212) 214-5637	<a href="mailto:brendan.mckenna@wellsfargo.com">brendan.mckenna@wellsfargo.com</a>
Shannon Seery	Economist	(704) 410-1681	<a href="mailto:shannon.seery@wellsfargo.com">shannon.seery@wellsfargo.com</a>
Jen Licis	Economic Analyst	(704) 410-1309	<a href="mailto:jennifer.licis@wellsfargo.com">jennifer.licis@wellsfargo.com</a>
Hop Mathews	Economic Analyst	(704) 383-5312	<a href="mailto:hop.mathews@wellsfargo.com">hop.mathews@wellsfargo.com</a>
Nicole Cervi	Economic Analyst	(704) 410-3059	<a href="mailto:nicole.cervi@wellsfargo.com">nicole.cervi@wellsfargo.com</a>
Sara Cotsakis	Economic Analyst	(704) 410-1437	<a href="mailto:sara.cotsakis@wellsfargo.com">sara.cotsakis@wellsfargo.com</a>
Coren Burton	Administrative Assistant	(704) 410-6010	<a href="mailto:coren.burton@wellsfargo.com">coren.burton@wellsfargo.com</a>

## Required Disclosures

This report is produced by the Economics Group of Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes this report directly and through affiliates including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC to be reliable, but Wells Fargo Securities, LLC does not guarantee its accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or upon any opinions set forth herein. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial product or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2021 Wells Fargo Securities, LLC

### Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EEA, this report is distributed by WFSIL or Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE