ECONOMIC OUTLOOK
REGIONS
January 2021

2021 Economic Outlook: 2021 Just Has To Be Better. Doesn't It?

A year that will be neither missed nor forgotten. That's about the best, not to mention the most charitable, way we can describe the year that was 2020. Still, while the calendar may say 2020 is over, it isn't really, at least in terms of the economic and financial impact of the COVID-19 virus and the efforts to stem its spread. Indeed, as 2020 came to a close, the level of real GDP was below that of year-end 2019 while the level of nonfarm employment was 9.839 million jobs below that of February 2020. While the gap in real GDP will be filled at some point in 2021, the gap in employment likely won't be filled until sometime in 2023. Many businesses, particularly small businesses, have closed, while many that have survived have been changed, perhaps permanently. Significant numbers of households have experienced financial setbacks, the effects of which will be felt for some time to come. The full scope of changes in working arrangements and living arrangements won't soon be known, and only time will tell whether the experiences of the pandemic have led to lasting changes in attitudes and behavior. In short, the full history of the effects of the pandemic on the economy is far from being written.

Still, the calendar says it's a new year, and that means it's time for us to look ahead at how we see the U.S. economy faring in the year ahead. As our long-time readers know, our practice has always been to present our annual outlook in the form of a series of questions covering topics such as real GDP growth, nonfarm employment, business investment, housing, interest rates, and the exchange value of the U.S. dollar. Our answers to those questions lay down markers for how we expect the year to play out, and each year we look back at our questions and answers from the prior year. We've always thought it important to hold ourselves accountable for the calls that we make and have always been open about doing so.

Which works out well in this case because, when it comes to 2020, the reality is that there is nowhere to hide from forecasts made at the start of last year. Okay, sure, if your 2020 outlook included a global pandemic, the largest quarterly contraction in real GDP on record followed by the largest quarterly expansion on record, nonfarm employment plummeting by over 22 million jobs and the unemployment rate spiking up to almost 15 percent, an epic decline in stock prices followed by new record highs, and the FOMC pushing the Fed funds rate back to zero, then you had yourself a very good year. The rest of us, not so much.

Rather than going through the ten questions we posed for 2020 one by one, we can sum up how our forecasts fared with a blanket "wrong." And even when we weren't wrong, we weren't really right. For instance, we had relatively modest expectations for 2020, with our baseline outlook calling for real GDP growth of less than 2.0 percent, nonfarm employment rising by fewer than 2.0 million jobs, with real consumer spending growing by less than 2.5 percent. If you wanted to reach, you could say these calls weren't wrong, but that still doesn't mean they were right. After all, there's a difference between predicting that *Anna Karenina* will end on the last page and accurately predicting how *Anna Karenina* will end.

What strikes us the most in looking back over our 2020 outlook is our sense of foreboding, as was apparent in the title of our piece: *What's Wrong With This Picture?* With the economic expansion in its 11th year and few signs of the imbalances that tend to build up as expansions endure and thus sow the seeds of recession, we felt many analysts had become complacent, with forecasts pretty much on autopilot. While we couldn't put our finger on anything specific, we nonetheless wrote that we couldn't shake a nagging sense of unease that something would go wrong. We also noted that what kept us up at night was worrying about what we didn't know that we didn't know, which is something you typically only find out the hard way.

Even in our most worried moments, however, we couldn't have conjured up the scenario that would play out over the course of 2020. As 2020 came to a close, the pandemic was still in the driver's seat, as a late-year surge in COVID-19 cases led to new restrictions on economic and social activity. Consumer spending softened as 2020 came to a close and labor market conditions deteriorated. Yet, at the same time, promising developments on the vaccine front held out hope that the economy would be performing much more strongly over the second half of 2021.

Against this backdrop, looking ahead at how the economy may perform over the course of 2021 leaves us with more questions than answers. Literally. So, in a break with our usual practice, we'll pose some broad questions covering what we think are some of the most relevant things to watch for in 2021, but will not lay out specific markers as we normally would. This isn't so much a reaction to having our (forecasting) hat handed to us by 2020 – we've always found economic forecasting to be a rather humbling exercise, even if not quite this humbling. Instead, our not laying down specific markers reflects what we think remains a high degree of uncertainty around the course of the pandemic, progress on vaccine distribution, and the path of fiscal, monetary, trade, and regulatory policy. As such, any forecasts we do make continue to come with a lower than normal degree of confidence.

QUESTION 1: 2021 Real GDP growth – a tale of two halves? It seems reasonable to expect the economy to be performing much more strongly at the end of 2021 than it is at the beginning of 2021. That does not mean, however, that we should expect the year to be neatly divided into two halves in terms of the rate of real GDP growth. While we do think there will be a transition to a much faster pace of growth at some point in 2021, there is simply

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

no way of knowing when that transition will occur. Thus, all any forecaster is left with are their assumptions about the course of the pandemic and distribution/acceptance of an effective vaccine.

At this writing, we do not yet have even the initial estimate of Q4 2020 real GDP growth, but we are pegging growth at just over 4.0 percent on an annualized basis. That does not mean, however, that the economy ended 2020 on a strong note. To the contrary, there is no question that the economy slowed over the final weeks of 2020, as reflected in the December labor market data. After a strong start in October, the economy lost momentum as Q4 wore on, reflecting the surge in COVID-19 case counts, which puts Q1 2021 real GDP growth off to a soft start.

While many analysts reacted to the passage of the $900 billion fiscal relief package by ramping up their forecasts of Q1 real GDP growth, we did not see much basis for doing so. The 11-week extension of the unemployment insurance (UI) benefits originally provided in the CARES Act is not additive, but instead keeps those receiving benefits from facing a sudden drop in cash flow. As such, rather than supporting a higher level of spending, these funds help sustain existing levels of spending for those receiving the benefits. While the Economic Impact Payments (EIP) of up to $600 per eligible individual, up to $1,200 for eligible couples, and up to $600 for each qualifying child, will lead to a spike in disposable personal income in January, the experience with the (larger) first round of EIP funds provided in the CARES Act should temper expectations of how, and how fast, this money will be spent.

While some portion of the initial round of EIP funds was spent, much of that spending was on consumer durable goods, including electronics, communication equipment, and home furnishings as people geared up for remote working/schooling, while there was also a spike in spending on home exercise equipment. By nature, however, spending on durable goods tends to be one-off; in other words, a second round of EIP is unlikely to generate the same type of spending and certainly not to the same degree. With much of the services sector either shut down or operating under capacity limits, this basically precludes a meaningful bounce in consumer spending on services, which accounts for roughly two-thirds of all consumer spending. Moreover, we know that a substantial portion of the original EIP funds was saved and has yet to be spent, with some portion going to paying down debt.

The broader point is that without a meaningful boost to consumer spending, the latest round of fiscal relief is unlikely to lead to a material boost in Q1 real GDP growth. We can make the same point about the latest round of funding for the Paycheck Protection Program (PPP), i.e., that it does more to sustain small businesses at current levels of staffing/activity than it does to boost either. At the same time, the drag on top-line growth from state and local governments is likely to intensify in the early months of 2021. All of which leaves us with a below-consensus forecast for real GDP growth over the first half of 2021.

As noted above, however, we think conditions are in place for there to be significantly faster growth later in the year. To the extent that funds from the second round of EIP are saved, that only adds to an already elevated personal saving rate, providing more fuel for faster growth in consumer spending once the economy is truly opened back up. To the extent that funds from the second round of EIP are used to pay down debt, that pushes monthly household debt service burdens, already bumping along near all-time lows, even lower, thus freeing up more cash. Those households who have taken advantage of low mortgage interest rates to refinance mortgages are also seeing increased cash flows, while higher equity prices and robust house price appreciation have fueled rising household net worth.

Obviously, the aggregate figures on household saving and net worth mask distribution issues, and it is apparent that the effects of the pandemic have fallen more heavily on those on the lower end of the income distribution. Those working in lower-wage industry groups such as retail trade and leisure and hospitality services are more likely to have been displaced from the labor market and are more likely to be renters. Many in this group will continue to struggle until the economy is truly opened back up, and we are by no means trying to minimize their plight. But, in terms of the aggregated data, conditions are in place for a marked acceleration in the growth of consumer spending at some point in 2021. That overall financial conditions are highly accommodative will act as a support for business investment, which will also contribute to faster real GDP growth later in 2021.

If, as seems likely given the outcome of the elections for Georgia's U.S. Senate seats, there is additional fiscal support on top of the package passed in December, it won't likely change the intra-year pattern of real GDP growth. While another round of larger Economic Impact Payments may add to consumer spending, the full effect will not be felt until the services sector is fully open. Lower-income households who are behind on housing and/or debt payments will likely devote some, if not most, of additional EIP funds to catching up. Financial aid to state and local governments would mitigate some, but likely not all, of the drag on GDP growth we anticipate from those sectors. And, should there be funds allocated to infrastructure spending, it will take some time before those funds start to flow. All of this is in line with our expectation that the pace of real GDP growth will build as 2021 progresses.

When any such acceleration in growth occurs will largely depend on the timeline for widespread distribution of an effective vaccine. Based on information now available, late-spring/early-summer seems a reasonable timeline. But, even when a vaccine is widely available, there are other questions that will have to be answered. First, how many people will be willing to take the vaccine? Second, when will policy makers be confident enough to lift any remaining restrictions on economic activity? Third, when will consumers be confident enough to resume activities that were considered "normal" prior to the pandemic, or have there been lasting changes in consumers' attitudes and behaviors that will lead to a new, and as of yet undefined, normal?

The reality is that none of us know the answers to any, let alone all, of these questions. In order to make a forecast, however, one must make assumptions. Judging from some forecasts we've seen which have real GDP growth taking off in Q2 2021, it's as though some analysts assume the answers to the three questions posed above are: 1) everyone; 2) right away; and 3) right away, no. It's as though one day a switch gets flipped and a powerful burst of economic activity is unleashed. Let's just say that our assumptions are a bit more tempered. If the timeline noted above proves valid, we'd expect economic activity to build over Q2 and into early Q3

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

such that, while growth does indeed pick up in Q3, the fastest quarterly growth rate will come in Q4 2021, with rapid growth continuing into early 2022. Again, there is no pre-defined timeline, and no one knows how this will actually play out. Our forecast simply reflects what we think to be a reasonable timeline and reasonable assumptions around the response from consumers and businesses as the economy is more fully reopened.

QUESTION 2: Will labor force participation fully rebound in 2021? While the economy has added back 12.321 million of the 22.160 million jobs lost over March and April, nonfarm payrolls declined in December, leaving the level of nonfarm employment 9.839 million jobs below that of February. While the unemployment rate has fallen sharply after spiking to 14.7 percent in April, there is clearly far more slack in the labor market than implied by the headline unemployment rate. As of December, there were 3.881 million fewer people in the labor force than there were in February, and the labor force participation rate was 1.8 percentage points lower. Moreover, the duration of unemployment is significantly longer, an indication that what in many cases started out as temporary job losses are morphing into permanent job losses. As of December, there were 3.956 million people who had been unemployed for 27 weeks or longer, the most since November 2013. There is an ample body of empirical evidence showing that the longer one is unemployed, the lower their odds of landing another job. As the duration of unemployment rises, many job seekers become discouraged and simply drop out of the labor force and, as such, are no longer counted as unemployed.

Even if we are correct in expecting economic growth to strengthen considerably by year-end 2021, it will take the labor market longer to catch up. One reason is that many small businesses will not have survived the pandemic and the efforts to stem its spread. Another reason is that the experience of the pandemic has likely accelerated the push amongst firms to step up the use of automation, meaning less demand for labor. Thus, while we expect the level of real GDP to return to its pre-pandemic peak at some point in 2021, we do not expect the level of nonfarm employment to return to its pre-pandemic peak until early in 2023. If this call is on or near the mark, it is reasonable to also expect only a gradual rebound in labor force participation.

Much of the decline in labor force participation has come amongst those between 25 and 54 years of age, i.e., the "prime working age population." It is also the case that the decline in participation amongst females has been particularly sharp, which to some degree reflects lack of adequate childcare and/or the need to be home with children in school remotely. Whatever the factors behind it, the decline in participation is concerning. Recall that the two drivers of an economy's sustainable rate of growth over time are the rate of labor force growth and the rate of productivity growth. Thus, a lower labor force participation rate is one way in which the effects of the pandemic could have a lasting effect on the economy. Note that if labor force participation bounces back faster than we anticipate over the course of 2021, the decline in the unemployment rate will be more gradual than that anticipated in our baseline forecast, but that won't necessarily be a bad thing.

QUESTION 3: Will business investment remain strong through 2021? Business fixed investment surprised to the upside in Q3 2020 and the higher frequency data suggest the Q4 GDP data will show another strong quarter. Orders for core capital goods, an indicator of business investment in equipment and machinery as reported in the GDP data, registered impressive growth over the latter half of 2020 and were on course for double-digit annualized growth in Q4. This raises an important point to keep in mind when considering the path of business investment in 2021, which is that we are likely to see continued divergence in the patterns of the individual components of the broad business investment category.

Business spending on computer and communications equipment spiked over the second half of 2020, in part reflecting the changes in working arrangements brought about by the pandemic. To some extent, however, this reflects future demand having been pulled forward, and it wouldn't surprise us to see these categories turn into a modest drag on overall business investment later in 2021. Spending in industrial equipment and machinery was also strong over 2H 2020, and while there should be further growth in 2021, the pace of growth will likely slow.

Spending on intellectual property products will provide support for overall business investment in 2021. Reflecting the changing nature of the economy, intellectual property products have accounted for a steadily increasing share of business investment over the past several years. Computer software and research and development combine to account for over 90 percent of spending on intellectual property products and are key drivers of labor productivity growth. To the extent firms will make greater use of automation, part of spending related to that goal will fall on equipment and machinery, and part will fall on intellectual property products. This is one reason to expect solid growth in this component of business investment in 2021.

In contrast, business spending on structures is likely to remain weak in 2021. Retail construction has been fading for quite some time, and with the pandemic having greatly accelerated the long-running shift away from in-store to online shopping, there is simply little impetus for a rebound in retail construction. The flip side, however, is that warehouse construction will remain a notable outperformer in business spending on structures. Another ongoing trend that was greatly accelerated by the pandemic was the rising incidence of working remotely. It is too soon to know whether, when, or to what extent the push inspired by the pandemic will abate, and while it isn't true that no one will ever go back to working in an office, it is likely a significant share of workers will not, at least not on a full-time basis. On net, then, what should be diminished demand should act as a steady drag on new office construction. While the lodging industry will begin to recover later in the year as the economy opens back up, it is likely that new development will be minimal, as operators will want to gauge the strength of any rebound before committing to new construction.

One wild card in the outlook for business investment in structures, and in equipment and machinery, is the energy sector. While a stronger trajectory of growth, at home and abroad, over the course of 2021 should be supportive of oil prices, higher prices would likely be met by a response on the supply side of the market. And, with considerable idle capacity amongst domestic producers and investors demanding a more disciplined approach to capital outlays, it is unlikely that energy-related investment in structures or in equipment and machinery will be a meaningful driver of growth in overall business investment in 2021.

QUESTION 4: Inflation – forgotten but not gone? Inflation seems to have faded into the background in 2020, and while to some extent that reflects the economic effects of the pandemic, the reality is that inflation had run below the FOMC's 2.0 percent target the overwhelming majority of the time since that target was formally adopted in 2012. That the FOMC changed their approach to inflation targeting in September and will now target an average rate of 2.0 percent over time seems to have pushed inflation even further down the list of concerns. To many, the question is no longer whether inflation will come back, but instead is how high inflation will have to go, and how long it will have to stay there, for the FOMC to respond. While it seems highly unlikely inflation will come close to that threshold in 2021, that doesn't mean it won't attract more attention.

As the economy effectively shut down last spring, prices of goods and services tumbled. While goods prices were quick to rebound as consumer spending on goods roared back, services prices remain listless and continue to act as a drag on inflation. This will remain the case until the economy is more fully opened, which is not likely to happen until the second half of 2021. Still, don't be surprised if the data show a spike in inflation earlier in the year. Easy over-the-year comparisons for March and April – thanks to prices having tumbled in those months last year – will make inflation look more fierce than will actually be the case, but the FOMC will not be at all alarmed by such a development.

More fundamentally, should the economy progress as we expect and spending on services picks up over 2H 2021, that will likely lead to spikes in prices of services such as travel, lodging, recreation, entertainment, and perhaps also dining out. This would fuel a spike, perhaps a significant spike, in measured inflation, but what would matter is whether any such price hikes were one-off adjustments to more normalized demand or whether there were sustained price hikes over time. As the former would be much more likely than the latter, the FOMC would look past that. Prices "normalizing" in this manner would be consistent with how we see 2021 playing out.

To the extent consumer spending on goods strengthens further over the course of 2021, that would be supportive of sustained increases in goods prices. Another factor that has supported goods prices is a weaker U.S. dollar, as a weaker dollar pushes up prices of imported goods. To the extent the U.S. dollar continues to weaken in 2021 (see Question 6), this would be a source of persistent upward pressure on goods prices, thus providing persistent support for overall inflation.

To the extent Democratic control of the White House and of Congress leads to a more expansionary fiscal policy stance, that could also be a source of persistent inflation pressures, but any such effects are likely to be much more pronounced later in the year. In short, even though it seems highly unlikely (a year ago, we would have used the word "inconceivable" here, but, lessons learned . . .) that inflation will rise high enough or stay there long enough for the FOMC to respond in 2021, it nonetheless seems reasonable to expect inflation to demand more attention this year.

QUESTION 5: Will house price appreciation run out of steam in 2021? While it may have been hard to find inflation in the actual inflation data in 2020, one place where rapidly rising prices were easy to find was the owner occupied segment of the housing market. While house prices may not be rising like there is no tomorrow, they are rising like there is no inventory, which seems like only a slight exaggeration. After a fairly subdued start to the year, the pace of house price appreciation increased steadily, and sharply, as 2020 wore on. While the December data are not yet available, as of November the CoreLogic House Price Index (HPI) was up 8.2 percent year-on-year, while the FHFA's purchase only HPI was rising at a double-digit pace.

The acceleration in price appreciation reflects the combination of extraordinarily lean inventories of homes – new and existing – for sale and notably low mortgage interest rates. Keep in mind that lean inventories have been a long-running story in the housing market, one we've been discussing for years. So, while the pandemic may have held down listings of existing homes for sale, at some point that will be corrected for, but we'll still be left with a market that is undersupplied.

House price appreciation will remain robust in the early months of 2021, thanks in part to easy over-the-year comparisons – again, it wasn't until the second half of 2020 that price appreciation really took off. Mortgage rates will remain favorable but are likely to begin drifting higher. Our premise is that, even without any increase in mortgage interest rates, sustained robust price appreciation would begin to erode affordability, which in turn would curb demand for home purchases. To the extent mortgage interest rates do increase, we get to that point sooner, and that will contribute to decelerating price appreciation. It is also likely that demand has, to some extent, been pulled forward by such low mortgage interest rates. If so, there will be payback at some point, likely later in 2021, which would also serve to take some of the steam out of house price appreciation. While our baseline forecast anticipates better than 6.0 percent growth in the CoreLogic HPI for 2021 as a whole, we also think that by the end of the year price appreciation will be running well below that pace, setting the stage for a much more subdued increase in 2022.

QUESTION 6: The U.S. dollar – down and out, or just down? By the end of 2020, the "short the dollar" trade was a very crowded place to be. Sentiment towards the dollar shifted markedly during the year, to the point that while the Federal Reserve's Broad Dollar Index ended 2020 5.5 percent below its year-end 2019 level, it ended 2020 12.3 percent below its intra-year peak. In the early phases of the pandemic, the "haven trade" pushed the exchange value of the U.S. dollar sharply higher. By year-end, however, the prospect of a recovery in the global economy in 2021, an even more accommodative FOMC, and the prospect of substantial U.S. federal government budget deficits on a sustained basis had turned sentiment against the dollar, with expectations of further declines in the exchange value of the U.S. dollar in 2021.

Our question coming into this year was whether sentiment against the U.S. dollar had become too negative. To be sure, it's hard to argue against the factors noted above that contributed to the dollar's downturn in 2020. At the same time, however, it helps to remember the U.S. dollar is still the world's de facto reserve currency, even if that status reflects the flaws of any possible alternatives more so than the virtues of the U.S. dollar. Unless and until there is a viable alternative, that implies a floor under the dollar, the question being how low that floor is. And, to the extent longer-term U.S. interest rates push higher over the course of 2021, that could attract capital back to the U.S., thus firming up the dollar. It also helps to keep in mind that when global economic conditions are more normalized, it should matter that the fundamentals of the U.S. economy, while perhaps not all that grand on an absolute basis, are at least more attractive on a relative basis than those of the Euro Zone and Japan.

Our sense, then, is that while the exchange value of the U.S. dollar may decline further in the months ahead, at some point the dollar will begin to at least stabilize, if not reverse some of the ongoing decline. Whether or not this happens will have implications for U.S. inflation, commodity prices, corporate earnings, and U.S. interest rates. As such, this is much more than a mere academic question.

QUESTION 7: How will fiscal, trade, and regulatory policy change in 2021? Obviously, the answer is yet to be determined, but this is nonetheless a key question for the U.S. economy. While it may be too soon for specifics, it is clear that policy will be quite different under the incoming Biden Administration, particularly with the Democrats in control of both the House and the Senate. Right off the bat, the Senate having effectively flipped (a 50-50 split with Vice President Harris casting the tie-breaking vote) led us to revise our baseline forecast; we've added another round of Economic Impact Payments, extended the duration of supplemental unemployment insurance benefits, and added funding for state and local governments. Beyond that, the trend rate of government spending will be higher than we had previously anticipated.

It remains to be seen whether this year will see sweeping changes to individual, corporate, and capital gains tax rates. If so, given the slim margin with which the Democrats control the Senate, any changes to tax policy would likely have to come through the budget reconciliation process, which may not be likely this year. There will no doubt be changes, perhaps sweeping changes, to regulatory policy, which could be less business-friendly than has been the case over the past four years. While trade policy figures to be more collaborative, it remains to be seen whether the Biden administration will roll back the tariffs imposed over the past few years or will instead use those as a starting point in negotiating subsequent trade agreements. While there is likely to be a push to bring manufacturing activity back to the U.S., it remains to be seen what form that will take and how global trading partners will react. There is also likely to be a significant push toward renewable energy, though whether that will come in the form of carrots (subsidies, tax breaks) or sticks (tax penalties) remains to be seen.

In short, there are likely to be many significant changes in fiscal, trade, and regulatory policy, but without yet having specific details and a specific timeline, there is no way to account for them in our January baseline forecast. This injects another layer of uncertainty around our January baseline forecast, something there was already an abundance of. Which gets us to . . .

QUESTION 8: What are some of the main risks to our 2021 outlook? As we did at the start of this piece, we'll go back to something we said last year, which is that what keeps us up at night is worrying about what we don't know that we don't know. After 2020, those worries are even more acute. Still, even if we focus on what it is that we know we don't know, there is no shortage of uncertainty around our 2021 outlook and we'll touch on some of the main sources of uncertainty.

The obvious starting point is the course of the pandemic and the progress on the vaccine front. As we saw over the final weeks of 2020 and have seen in the early days of 2021, the pandemic isn't going away quietly and still has the capacity to disrupt economic activity. With no way of knowing how severe or how persistent any post-holiday spike in cases will be, it does seem clear that it will be a drag on Q1 growth. But, even assuming the vaccines are widely available over the late-spring/early-summer window, we think it worth pointing back to the questions we posed earlier in terms of people being willing to take the vaccine, policy makers being willing to relax remaining restrictions on activity, and whether there have been lasting changes in attitudes and behaviors. While some simply dismiss them out of hand, we think they're relevant questions, even if we don't yet know the answers.

Those answers, however, will go a large way toward determining how the economy performs in 2021. As we noted above, conditions are in place for there to be a significantly faster pace of economic growth by year-end 2021 and, in that sense, we see some upside risk to our baseline forecast. At the same time, a still highly uncertain policy backdrop injects an added layer of uncertainty, though it could be that changes in regulatory and trade policy have a bigger impact on growth in 2022 and beyond than on growth in 2021.

As for other potential risks to our 2021 outlook, we do not yet know the extent to which there will be lasting scarring on the labor market, in terms of labor force participation and, if we are correct about there being a harder push toward automation, the potential for there to be greater skill mismatches in the post-pandemic economy. It does seem reasonable to assume that the greater the degree of any such scarring, the bigger the drag on growth and the greater the potential for income inequalities to persist.

We think it also important to ask what might happen when the fiscal "stimulus" machine is turned off. Granted, some seem to think there is no off switch, but the reality is that, at some point, the supports for personal income and the forbearance periods will come to an end. While the considerable amount of support either already in the economy or soon to be in the economy will certainly help smooth the transition, at some point there will be a reckoning of any lasting damage done to the services sector, in the form of businesses, and jobs, that won't be back. Should that coincide with the inevitable cooling of now-hot sectors such as manufacturing and single family residential construction, there could be a more abrupt slowdown in economic growth that could come sooner than what we are now anticipating. Finally, at times it seems as though the financial markets have already priced in the potential for positive news on the fight against the pandemic and the resulting boost to the economy several times over. To the extent this is the case, one could argue it is setting up a period of turbulence at some point down the road, which could in turn feed back into the real economy, and not in a good way.

While this is not to say any, let alone all, of these things will come to pass, after what we went through in 2020, it would seem foolish not to at least ask these and similar questions. The main lesson from 2020 was be prepared for anything, even things we've never seen before. Somehow, we can't help but think that 2021 is going to present us with a test of whether we learned the main lesson from 2020.

ECONOMIC OUTLOOK

REGIONS

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Q2 '20 (a)	Q3 '20 (a)	Q4 '20 (f)	Q1 '21 (f)	Q2 '21 (f)	Q3 '21 (f)	Q4 '21 (f)	Q1 '22 (f)		2018 (a)	2019 (a)	2020 (f)	2021 (f)	2022 (f)
-31.4	33.4	4.2	1.6	2.0	5.1	6.2	4.8	Real GDP[1]	3.0	2.2	-3.5	3.8	4.3
-33.2	41.0	4.4	1.9	3.7	6.5	8.0	4.9	Real Personal Consumption[1]	2.7	2.4	-3.8	5.1	4.9
-27.2	22.9	6.0	3.9	4.1	4.3	5.0	4.4	Real Business Fixed Investment[1]	6.9	2.9	-4.4	4.3	4.4
-35.9	68.2	11.0	4.8	2.9	1.8	2.1	2.1	Equipment[1]	8.0	2.1	-5.7	7.8	2.1
-11.4	8.4	2.1	4.7	6.3	6.6	7.6	6.8	Intellectual Property and Software[1]	7.8	6.4	1.2	4.3	6.3
-33.6	-17.4	-7.2	-0.6	2.4	6.1	7.3	5.5	Structures[1]	3.7	-0.6	-11.1	-5.0	6.6
-35.6	63.0	29.3	0.1	-0.1	-1.8	-3.0	-0.8	Real Residential Fixed Investment[1]	-0.6	-1.7	5.7	7.8	-0.3
2.5	-4.8	-2.5	1.0	-4.1	1.0	1.9	2.9	Real Government Expenditures[1]	1.8	2.3	1.0	-1.2	1.7
-775.1	-1,019.0	-1,106.8	-1,121.6	-1,133.2	-1,130.7	-1,120.7	-1,116.4	Real Net Exports[2]	-877.7	-917.6	-922.2	-1,126.5	-1,116.9
766	1,037	1,176	1,151	1,126	1,103	1,098	1,093	Single Family Housing Starts, ths. of units[3]	872	893	987	1,119	1,094
313	395	357	363	362	364	364	363	Multi-Family Housing Starts, ths. of units[3]	376	403	395	363	366
11.3	15.3	16.1	16.0	16.2	16.3	16.4	16.5	Vehicle Sales, millions of units[3]	17.2	17.0	14.4	16.2	16.6
13.1	8.8	6.8	6.6	6.5	6.1	5.7	5.4	Unemployment Rate, %[4]	3.9	3.7	8.1	6.2	5.1
-11.2	-6.9	-6.0	-5.8	7.9	3.3	2.8	3.2	Non-Farm Employment[5]	1.6	1.4	-5.7	1.8	2.9
48.5	-16.3	-9.4	52.3	-29.2	-9.7	-0.3	1.9	Real Disposable Personal Income[1]	3.6	2.2	6.0	1.2	-2.2
0.6	1.2	1.3	1.2	2.1	1.6	1.6	1.6	GDP Price Deflator[5]	2.4	1.8	1.2	1.6	1.6
0.6	1.2	1.1	1.1	1.8	1.3	1.6	1.7	PCE Deflator[5]	2.1	1.5	1.2	1.4	1.7
0.4	1.3	1.2	1.6	3.1	2.3	2.2	2.0	Consumer Price Index[5]	2.4	1.8	1.2	2.3	1.7
1.0	1.4	1.3	1.3	1.9	1.6	1.8	2.0	Core PCE Deflator[5]	2.0	1.7	1.4	1.6	1.9
1.3	1.7	1.6	1.7	2.7	2.2	2.2	2.3	Core Consumer Price Index[5]	2.1	2.2	1.7	2.2	2.2
0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	Fed Funds Target Rate Range Mid-Point, %[4]	1.78	2.16	0.42	0.13	0.13
0.69	0.65	0.86	1.09	1.19	1.26	1.36	1.43	10-Year Treasury Note Yield, %[4]	2.91	2.14	0.89	1.23	1.53
3.24	2.95	2.76	2.93	3.00	3.11	3.21	3.30	30-Year Fixed Mortgage, %[4]	4.54	3.94	3.12	3.06	3.41
-3.3	-3.4	-2.9	-3.1	-3.1	-3.3	-3.2	-3.0	Current Account, % of GDP	-2.2	-2.2	-2.9	-3.2	-3.0

a = actual; f = forecast; p = preliminary

Notes:
1 - annualized percentage change
2 - chained 2012 $ billions
3 - annualized rate
4 - quarterly average
5 - year-over-year percentage change

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203

Richard F. Moody
Chief Economist

Greg McAtee
Senior Economist