4Q20 Economic Summary

2020…what a year. When the year began, trade relations with China and the presidential election were the biggest uncertainties facing the US. Then Covid-19 hit and brought the world economy to its knees. Unfortunately, the pandemic continued to rage on during the fourth quarter, with the US leading the world in virus cases and deaths. Cold weather and increased family gatherings around the holidays brought a new wave of infections, causing many states to reinstitute lockdowns and increase restrictions. It was not all gloom and doom, however. At least a few uncertainties were resolved during the fourth quarter. Joe Biden was elected the 46th president of the United States in November, two highly effective COVID-19 vaccines were approved for use in the US in December, and after months of negotiations and bipartisan gridlock, Congress finally passed an additional $900 billion stimulus package to provide much needed aid to small businesses and the unemployed. Through it all, equity markets vacillated but remained resilient, with the DOW and S&P 500 ending the year at all-time highs. On the fixed income side, short-term Treasury yields remained anchored by the Fed's commitment to keeping rates lower for longer, but the back end of the curve steepened into year-end as the positive vaccine and stimulus news increased expectations for growth and higher inflation in the New Year.

After record GDP growth in the third quarter, economic momentum in the US began to falter. While both manufacturing and service sectors continued to expand during the fourth quarter, consumer spending slowed toward the end of the year as infection rates rose, forcing closures of stores and restaurants in many states. Also contributing to the deceleration in demand was a drop in household incomes as various support programs wound down while Congress haggled over a new stimulus deal. The impact of the virus resurgence was reflected in the labor market data as well. While the unemployment rate held steady at 6.7%, nonfarm payrolls declined 140,000 in December, marking the first month of job losses since April. Restaurants, bars and other leisure and hospitality businesses were hit hard by the new pandemic restrictions and bore the brunt of the losses. However, other parts of the economy, including manufacturing, construction and business services, continued to add jobs as the economic pain was relatively contained to consumer-facing sectors. One market that has remained resilient throughout the pandemic is housing. Home sales continued to rise in the fourth quarter, capping the best year for the housing market since 2006. Historically low mortgage rates and a desire for larger spaces outside of cities fueled demand for single-family homes and drove the number of houses available for sale to an all-time low. Housing starts continued to climb as builders tried to keep pace with demand, but higher lumber prices and persistent shortages of labor are delaying delivery times and adding pressure on home prices. Overall, the US economy continued to recover during the fourth quarter, but controlling the pandemic remains key to returning to economic normalcy.

The US was not the only country to experience a resurgence in the coronavirus. Most of the world saw an increase in infections after loosening lockdowns, forcing many to reverse course during the fourth quarter. Increased restrictions, including travel bans, could result in double dip recessions in the UK, EU and Japan. In order to combat the economic uncertainty, governments across the world have increased spending, pushing global debt to an all-time high. Despite the soaring debt burdens, the IMF says now is not the time to pull back support. IMF Managing Director Kristalina Georgieva encouraged countries to "spend and then spend some more" to help revive their stuttering economies. She continued to advocate "for monetary policy accommodation and fiscal policies that protect the economy from collapse at a time when we are on purpose restricting both production and consumption."

The Federal Reserve heeded the call and continued to do its part to keep the US economic recovery from backsliding. According to the minutes of the December FOMC meeting, Committee members believed that recent indicators were signaling that the pace of the recovery had slowed and "with the pandemic worsening across the country, the expansion was expected to slow even further in coming months." Given the ongoing uncertainty, the Fed remained firm in its commitment to keeping monetary policy extremely accommodative and forecasted no rate hikes through at least 2023. In addition to keeping rates at the zero-lower bound, the Fed pledged to continue buying assets at the current rate until its maximum employment and inflation pledges are met.

Overall, 2020 was a year for the record books and one that will not be forgotten although many would like to try. Optimism is high that 2021 will be a much better year in terms of both health and economic prosperity, but it will all depend on overcoming the coronavirus. As IMF Chief Economist Gita Gopinath said, "It's a dark and difficult winter but there is light at the end of the tunnel…right now, it's a race between the virus and the vaccine."