Benjamin Douglas

Professor Weinan (Hunter) Yan

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U.S. Economic Forecast 2021

The United States economy has been wildly unpredictable throughout 2020. GDP took a massive hit, while the stock market flourished, and the housing market blew up beyond anyone’s previous predictions. I believe that due to the way the year is ending and how current events such as the COVID-19 pandemic are playing out, 2021 will bring a year of an overall upward trend within the economy. I believe that the United States GDP will continue along its path to recovery albeit, experiencing numerous speed bumps along the way. I also predict the stock markets days of major success are numbered. Lastly, I think the housing market will continue to be a hot sector of the economy well into the coming year with both the continuation of the pandemic and its eventual end contributing to the surge in demand. Overall, I predict that the new year will be one of overall growth that will help the economy heal from the impacts of the pandemic however, it will not be without its uncertainty.

I believe that in 2021, the United States’ GDP will continue to recover. I presume however, that this will be a slow positive trend that will experience periods of economic downturn. Now that the vaccine has begun its production and distribution, an end to the COVID-19 pandemic is theoretically in sight. I think this will spearhead the forces leading to overall GDP growth. As people get vaccinated and hopefully become immune, state and local governments as well as their citizens, should begin to feel safer venturing from their homes, traveling, and spending therefore helping personal consumption expenditure, which accounts for almost 70% of GDP, recover at least to pre-COVID levels. Since the beginning of the pandemic, consumers have been spending less and those fortunate enough to have kept their employment, saved more of their disposable income, a record setting average of 32.2%. I believe the end of the pandemic should lead to an increase in consumer mobility causing a massive increase in the velocity of money, which will boost the economy and in turn, the U.S GDP. However, I predict this upward trend will be consisting of varying levels of growth due to lack of consumer patience. As the vaccine begins to be spread, I predict that some of the individuals who have not been vaccinated will run out of patience, flouting health regulations and suggestions in order to satisfy their desire to get out and spend on travel, entertainment, etc. This, I believe, will lead to more outbreaks across the country that will lead state and local governments to re-implement shutdowns alongside other regulations that will hinder economic growth. However, I think the impacts of these outbreaks and subsequent shutdowns may be less than what we have previously seen due to the fact essential workers and those who are most vulnerable to the virus will have been vaccinated, easing the burden on health care systems, which in turn, should lead legislators to feel comfortable raising or loosening restrictions sooner. Shorter or less extreme lockdowns will most likely still slow economic growth but should not have as extreme of an impact as we have seen with previous regulations.

As consumer spending begins to increase, I believe consumer saving and investment will do the opposite. Once people feel safe and secure enough to go out and spend more of their income, the record setting bubble caused by the increase in saving and investment in the stock market will pop, which will have drastic impacts on the stock market. The government adopted expansionary policies to try and help the nation through the economic turmoil cause by COVID-19. Because of this, citizens of the United States have more money on hand but, fewer places to spend it. I believe this is why we have seen such surprising growth in the stock market. All this money that under any other circumstances, would not have been spent in the stock market but has been, has pushed prices higher and higher, leading to a bubble that will likely pop at some point during the process of economic recovery from the Coronavirus. I believe this will happen due to the inevitability of an end to government money injections such as the stimulus check received by most Americans. Once this extra money and relief runs out, either people will be left struggling to make ends meet, or they will be dropped off into an economic world similar to pre-COVID times in terms of self-sustainability and opportunity to spend money. I believe that once consumers get used to having more outlets to spend money, the rate at which people are investing their disposable income will drop drastically in order to fund the expenses they have gone almost a year without. In my opinion, this drastic drop in demand for investment stocks will likely pop the bubble we see now within the stock market and lead to a drastic drop in prices or even possibly a crash.

I believe the housing market on the other hand is looking very robust with very little reason to believe a crash is in store. Throughout the pandemic, the housing market has seen record-breaking growth. Despite and possibly because of the possible economic uncertainty ahead, the number of consumers in the market for homes has increased sharply. These home buyers are quickly purchasing the comparatively few homes currently on the market. This has led to unforeseen bidding wars and closing prices consistently significantly higher than asking prices. Home value growth has risen 3 percent throughout 2020 and is expected to continue this trend to increase a total of 7 percent by September 2021. It is expected that mortgage rates will stay around the same in the coming year which has helped buyers absorb the higher prices due to low inventory within the housing market. I believe that despite the pandemic likely nearing its end, demand for houses likely will not decrease. One of the top reasons people have been looking into purchasing homes at such incredible rates is due to the shift into working from home. With consumers spending everyday at home and leaving much less than they did pre-COVID, many have realized how small their current living arrangements may feel and have felt the need for more space. I think that once this notion is inside a consumer’s head and they feel the solution is to move into a bigger space, even though soon, they may be able to spend less time in their home, it will be a very difficult sentiment to shake. Those who are dissatisfied with their homes are, in my opinion, very unlikely to come around and once again be more satisfied with their situation. Another impact the pandemic has had that will affect the 2021 housing market is the rate at which young adults are moving back into their parent’s homes. This has occurred for various reasons which include college campus closure or financial reasons such as job loss. Once the pandemic is over and the economy begins to recover, I believe, these young adults will once again want to move out. This would mean that they would flood the housing market with even more buyers further increasing the buyer to inventory deficit. Lastly, this would further increase demand, pushing prices higher as the year goes on. I predict that with all things considered, the housing market will continue to grow due to increase in supply and the subsequent increase in home value.

I predict 2021 to be a year of general economic growth and recovery within the United States. I think that U.S GDP will continue its overall upward trajectory throughout the coming year but will experience some periods of economic slow-down. The stock market however, I believe will struggle throughout 2021 with reduced demand and therefore a drop in stock value and prices. Lastly, my prediction for the housing market is that demand will continue to be high and will continue to push prices higher as we have seen throughout this past year. I do think the economic effects of the COVID-19 pandemic are far from over however, I predict that how these effects are represented throughout the United States economy will depend on what sector you are focusing on as some may thrive will others struggle to stay afloat throughout the new year.