



# More Reasons For Economic Optimism Just Ahead

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Overview - Why Outlook For The 2020s Looks Bright

A compelling argument can be made that the 21<sup>st</sup> century US economy has been a two-decade series of disappointments. Following a decade of steady economic growth in the 1990s, the 21<sup>st</sup> century began with a growing sense that the boom-followed-by-bust "*business cycle*" had been vanquished, and the long period of prosperity should continue indefinitely.

Instead, we had a mild recession in 2001 which was followed by a weak recovery, followed by the 2008-9 financial crisis and Great Recession, followed by another weak recovery for nearly a decade, followed by the pandemic-induced economic collapse in early 2020 - which required trillions of unprecedented government and Fed spending (borrowing) to get us out of it.

With the exception of the years leading up to the pandemic, which weren't that great to begin with, it has been two decades of underwhelming growth and overwhelming inequality - an economy in which a persistently weak job market, with over 10 million still unemployed today, helped fuel social and political dysfunction.

Yet as disappointing as the last two decades may have been, and despite the fact that we are still mired in the COVID crisis, there are growing reasons to be optimistic about the next several years - assuming we get the current pandemic under control, which I believe we will.

Economic predictions are tough, of course, and much could go wrong in the upcoming years, especially with our government soon to be a record \$30 trillion in debt. But the reasons for optimism I will discuss today are not solely rooted in ending the COVID pandemic, which is of course very important, or necessarily getting our debt under control. Let's get started.

## Recent Innovations To Boost Future Economic Growth

Despite the unimpressive GDP growth in the last decade, there has been a great deal of economy-altering innovation which has yet to manifest itself as powerful economic growth. It often takes years for business and industry to figure out the new innovations created and how best to use them.

Yet once such hurdles are cleared, innovation can spread with dizzying speed.



That's what more and more forecasters expect to see starting this summer and in the years ahead - *IF* the liberals running the government don't strangle the economy with excessive *OVERREGULATION*. This is a legitimate concern, of course, but hopefully they won't go too far.

Here's another thing about new innovations: They can combine in unexpected ways. An older example comes from the early part of the 20<sup>th</sup> century when indoor plumbing and electricity were sweeping the nation. But the people installing those water pipes, powerlines and home wiring had no idea that by the 1920s those innovations would result in the invention and widespread distribution of... the home washing machine... which relatively quickly spread worldwide.

The washing machine also sparked revolutions in manufacturing techniques, production and distribution around the world. All those innovations combined to make domestic life easier across the developed world.

Now let's look at a present-day combination of innovations: Driverless cars and trucks which most experts are convinced will dominate transportation in the years just ahead. These new vehicles are the product of years of research in artificial intelligence software, sensors and batteries, just to name a few. After years of hype, billions of dollars in investment and millions of miles of test drives, driverless cars are now a reality.

Waymo LLC, a sister company of Google, has opened a driverless taxi service to the public in the Phoenix suburbs. Major companies including General Motors, Ford, Tesla, Apple and many others are in the hunt as well, along with many smaller competitors.

We can apply the same logic to healthcare, to warehousing and heavy industry and countless other fields. Inventions maturing now could be combined in new ways we can't yet imagine. In short, historians tell us that crises always spur innovation. That should be especially true given the breadth of the COVID-19 pandemic which has affected the entire world.

Many new innovations in the last few years, we are told, have yet to make it into the marketplace because they have been held back by the pandemic, but they are expected to burst onto the scene just ahead. We'll see.

### **Other Reasons To Be Bullish On US Economic Growth**

In addition to pent-up innovations which are likely to materialize later this year and beyond, there are other reasons to believe economic growth will flourish as we get the coronavirus under control, hopefully later this year. Let's look at a couple of encouraging developments you might not think about.

We'll start with some thoughts about China. China's economy has been a juggernaut for the last 40+ years, with growth often above its target rate of 6%. In 2020, however, China's GDP is estimated to have risen only **2.3%**, according to the International Monetary Fund (IMF).

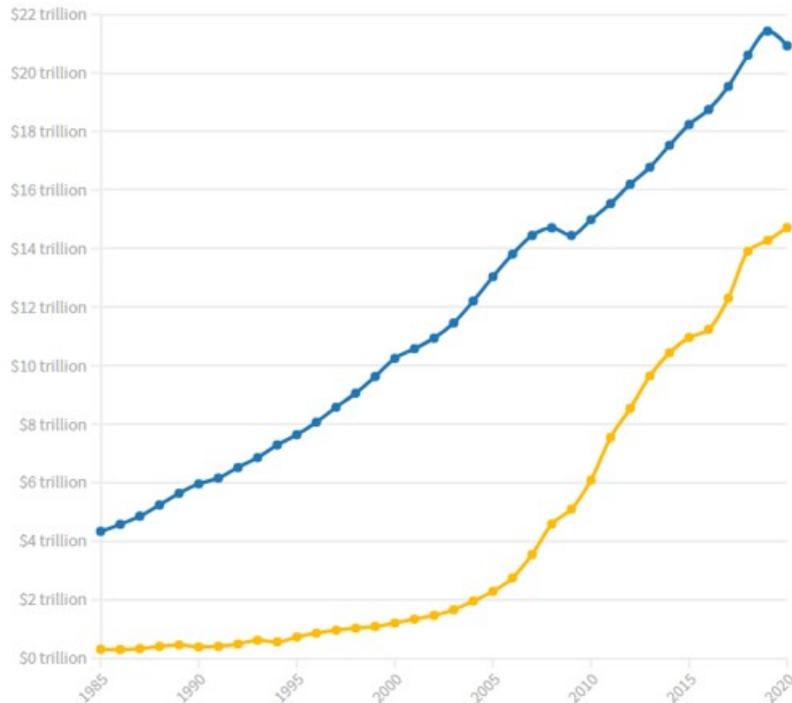
By comparison, the US economy contracted by 3.5% last year, the worst annual growth since 1946 as WWII wound down. Yet as I reported on **March 9**, most forecasters now believe the US economy will have the strongest rebound in decades this year and quite possibly next.

Most forecasters have recently upgraded their US GDP estimates to 6-7% or higher for the next 12 months. That would put us within striking distance of China which is expected to rebound with GDP of 7-8% over the same period. The last time the two economies' growth rates were this close was at the end of the 1990s during the "*dot.com*" boom.

## Economic Growth in the U.S. and China

GDP in current U.S. Dollars

■ U.S. ■ China



Source: US Commerce Department, chart courtesy of CNBC

While China may continue to enjoy annual GDP growth of 7-8% in the years ahead, most economists agree China's influence on the global economy has pretty much peaked. Put differently, China's global market share may now be about as large as it's going to get.

This is due to many factors but chief among them is the fact that China's working age population is now fully employed and wages are rapidly rising as it moves beyond low-end manufacturing and toward more sophisticated goods. India, the only other developing country with such a large population, is in a similar position.

The point is this: the trend toward globalization has peaked and, to the extent it continues, it should be a much more gradual process. Put differently, the so-called "*offshoring revolution*" has played itself out. This is bullish for the US economy longer-term.

### Millennials To Replace Boomers As Main Economic Driver

The Millennial Generation, those currently aged 25-39, the largest generation in US history (roughly 72.1 million) gets a generally bad wrap from the media – and to some extent deservedly so. Many of these young people still live with their parents and aren't gainfully employed. Only about one-third (32.9%) of Millennials are married by age 40, well under half the rate of Generation Xrs (aged 40-55) and Baby Boomers (56-74).

It's not as if Millennials haven't been hit with more than their fair share of legitimate bad luck. Many were just reaching working age when the Great Recession and financial crisis of 2008-9 hit and the jobs market dried up. Many were also crippled by last year's COVID pandemic which saw over 22 million US jobs evaporate. It's no wonder many Millennials feel cheated.



Yet while Millennials are getting a late start on their productive lives, most will get there eventually. As they do, they will get better jobs, what with the Baby Boomers retiring, and they'll start to make more money. When they do, they will begin buying homes, furniture, household items of all kinds, etc. Most will have kids and spend on everything it takes to raise children.

As the largest generation in US history, they will be a force to be reckoned with for sure, albeit at later ages. This will also be a very bullish development for the US economy in the years to come. I'm not sure most forecasters take this potential huge demand seriously in making their predictions about the US economy going forward.

Today's discussion addresses just a handful of reasons to be optimistic about the US economy, at least for the next few years. There are others I will get to in upcoming weeks. For the near-term, at least, most forecasters expect the US economy to surge over the next 12 months with GDP growth of 6-7% or better, followed by another well above average year in 2022.

My only main concern, aside from overregulation, is the current explosion in US debt, which will top \$30 trillion later this year or next. The Biden administration is hinting that in addition to the latest nearly \$2 trillion stimulus bill, they want to pass a gigantic "infrastructure" bill which could be twice as large.

So far, stocks seem to like all this spending. Yet it's the bond market we need to worry about. That's a discussion for another time, but suffice it to say: it's time to rethink your exposure to fixed income now.

**All the best,**

**Gary D. Halbert**

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