

The Economy in 2021: Moving past different

Ryan Severino, CFA | JLL Chief Economist



Stronger than expected rebound across indicators



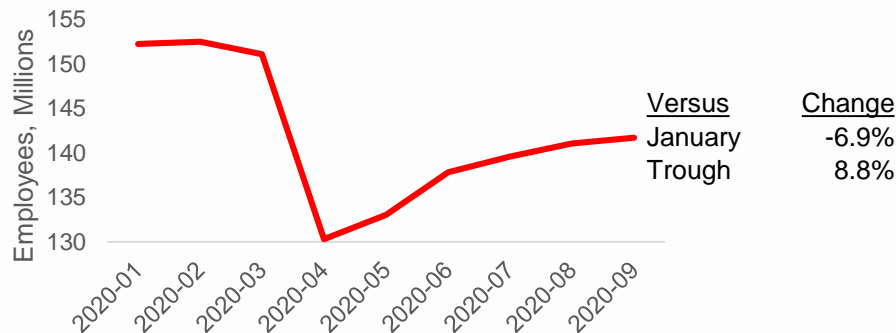
Personal Consumption Expenditures



Average Private Earnings



Total Nonfarm Employment



S&P 500



Sources: JLL Research; S&P; BLS; BEA

Knightian Uncertainty

Why it is not the same as “risk”

In economics, *Knightian Uncertainty* is a **lack of any quantifiable knowledge** about some possible occurrence, as **opposed to the presence of quantifiable risk**.

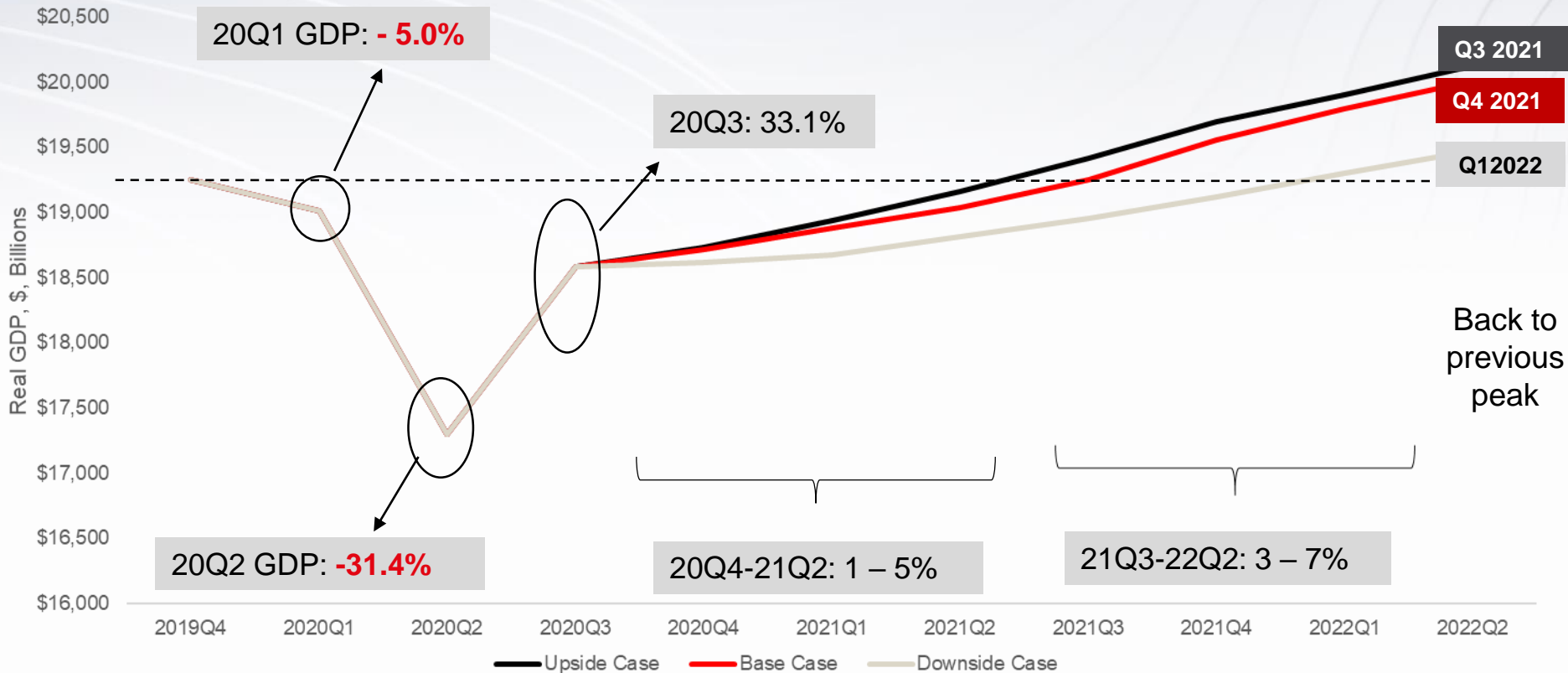
The concept acknowledges some fundamental degree of ignorance, a limit to knowledge, and an essential unpredictability of future events.

Knightian Uncertainty is named after University of Chicago economist **Frank Knight** who distinguished risk and uncertainty in his 1921 work: *Risk, Uncertainty, and Profit*



"Uncertainty must be taken in a sense radically distinct from the familiar notion of Risk, from which it has never been properly separated.... The essential fact is that 'risk' means in some cases a quantity susceptible of measurement, while at other times it is something distinctly not of this character; and there are far-reaching and crucial differences in the bearings of the phenomena depending on which of the two is really present and operating.... It will appear that a measurable uncertainty, or 'risk' proper, as we shall use the term, is so far different from an unmeasurable one that it is not in effect an uncertainty at all."

All scenarios projecting growth ahead



Key downside risks to base case scenario



Secondary lockdowns

Human behavior

Austerity

Other policy mistakes

Probability: **Medium**

Most governors will likely resist secondary lockdowns, even amidst growing cases.

Probability: **Medium**

Surging cases could cause consumers to refrain from certain activities out of fear, or illness prevents them from participating in the economy.

Probability: **Medium**

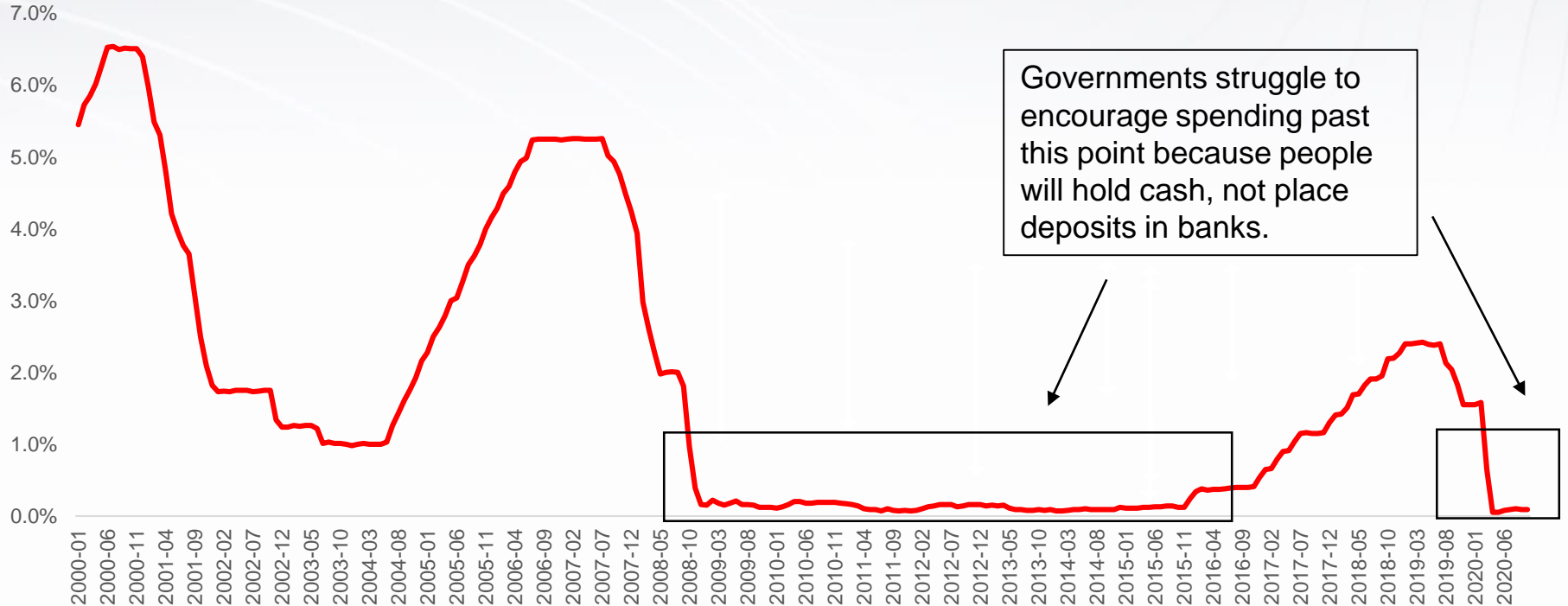
Expiration of government stimulus programs reduces incomes and eliminates support for employment.

Probability: **Medium**

Mistakes on trade policy and immigration policy imperil growth.

The Zero Lower Bound

Effective Fed Funds Rate



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