

Research Briefing | US

Omicron, BBB failure may deliver a one-two punch

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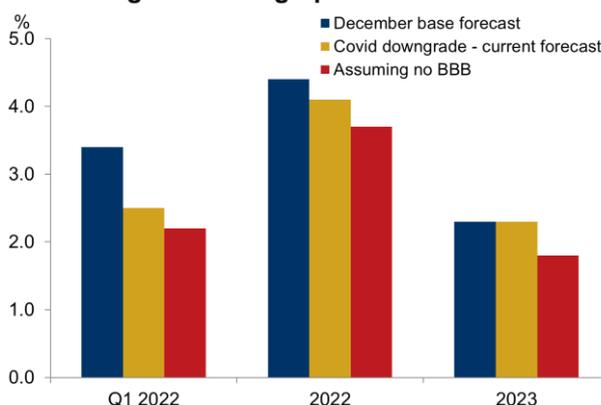
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- **The economic outlook for 2022 looks less upbeat due to the rapid spread of the Omicron variant and the possibility that the Build Back Better (BBB) fiscal plan won't get passed. The prospective course of both the pandemic and fiscal policy are fluid; as such, we will be closely monitoring each situation closely as we head into the new year.**
- **Based on our current assessment, the resurgence in Covid could lower growth to around 4.1% versus 4.4% in our December base. The softer growth profile will be concentrated mostly in Q1 since we look for a bounce back in activity following a winter slowdown.**
- **If BBB legislation is completely derailed, this would likely shave another 0.4ppts from growth in 2022, lowering it to around 3.7%. The drag to growth in 2023 is likely to be a larger 0.5ppts, lowering real GDP growth to below 2%. Employment could be 750k lower by year-end 2023. Inflation will be only marginally lower than if BBB were to pass.**

The Omicron variant is likely to take a greater toll on GDP growth in early 2022 than [we previously estimated](#). Omicron is spreading rapidly and widely and is causing some restrictions on activity to be put in place, including self-imposed restrictions. There is some hope that infections from the new variant will produce relatively mild symptoms, but only among those who are fully vaccinated, including a booster shot. Currently only 61% of the population has been vaccinated, with just 25% of those having received their booster shot. The severity and extent of the pandemic's short-term path is very fluid so we will be watching developments closely over the coming weeks. For now, we see Q1 2022 real GDP growth on course to be closer to 2.5%, lower than the 3.4% in our December baseline. Despite an anticipated rebound in activity after the winter, real GDP growth for 2022 looks to be 4.1% versus our prior forecast of 4.4%.

Figure 1: GDP growth looks slower on Covid surge; No passage of BBB lowers it further in 2022 and 2023

US: GDP growth lining up slower



Source : Oxford Economics/Haver Analytics

The surge in Covid cases is dampening momentum heading into 2022. Our GDP tracker suggests Q1 growth is poised to slow to 2.5%. We see growth around 4.1% in 2022. If the BBB legislation is not passed, growth would be lowered by another 0.4ppts in 2022 to 3.7%. Growth in 2023 would be cut 0.5ppts to 1.8%.

Prospects for passing BBB have dropped considerably

Separately, Senator Joe Manchin dealt what may be [a fatal blow](#) to President Biden's climate and social safety net agenda when he said he would not vote for the Build Back Better plan being crafted in the Senate; the House in late November passed its \$1.8tn version of BBB. Manchin has never been an enthusiastic supporter of BBB, citing concerns about the possible impact on inflation, some of the climate provisions and the short-term nature of many of its provisions, which he argues masks the true cost of the legislation. There is some chance that BBB can be overhauled to satisfy Manchin's concerns, but at this stage the chances of passage have dropped considerably.

Failure to pass BBB would deduct 0.4ppts and 0.5ppts off GDP growth in 2022 and 2023.

If the [BBB legislation fails to be passed](#) in its entirety, it would reduce real GDP growth by another 0.4ppts in 2022 to around 3.7% and 0.5ppts in 2023 to around 1.8%. The labor market recovery will also be slower without BBB, reducing employment by 750k jobs by the end of 2023. Removing BBB from our baseline won't resolve near-term inflation pressures, despite concerns its passage would inflate prices further.