

US: Straining at the leash

The US has, so far, avoided the economic strife seen in Europe resulting from new lockdowns, but caution is warranted given evidence of the new strain having arrived. Nonetheless, as the vaccination programme gains momentum, the economy re-opens and further fiscal spending materialises, vigorous growth will return



Democratic Senator-elect Raphael Warnock with President-elect Joe Biden in Atlanta earlier this year

The short term outlook

Given rising numbers of Covid cases, we had been fearing that the 'stay at home' order in California would spread elsewhere, but so far this has not happened. Instead, individual states are largely limiting the restrictions to the cessation of dine-in eating in areas of high infections, restrictions on the size of gatherings, capacity limits in gyms, bars and some retail, and mandatory mask-wearing. This is far less onerous than what is being experienced in much of Europe.

It means we have chosen to revise higher our 4Q 2020 GDP number, but even this can't hide a loss of momentum in the recovery. Consumer spending fell in November and we could see a further drop in December given the developments in California, the US' most populous state. The fact that dine-in eating has ended in some major cities, including New York, forcing many businesses to close again, will also weigh on spending and jobs.

We can't say for certain that restrictions won't intensify. So far, only a handful of states has

identified cases of the new, more infectious coronavirus strain, but if it gains a foothold and leads to an acceleration in hospitalisation rates we can well imagine 'stay at home' orders will return more broadly to the US.

This means we retain a cautious near-term outlook. We forecast only weak growth in the first quarter of 2021 despite the fact we have had a \$900bn fiscal support package passed and \$600 cheques are appearing in millions of people's letterboxes.

The vaccine effect

The US is now vaccinating "at-risk" groups and the elderly, but it is going slower than planned. The goal of 20 million vaccinations by December 31st has been missed with a little over 4.5 million achieved by the first week of January while only 15 million doses have been delivered to states. This suggests there is both a failure on both the production and the distribution sides. There are also issues surrounding people who can receive it [not wanting it](#) in some states, while in Florida there reports some people are [camping out overnight](#) to make sure they get the jab.

Joe Biden is promising 100 million vaccinations in his first 100 days of the presidency (by April 30th), but with 2 shots needed and a population of 330 million, it will take time for herd immunity. Dr Anthony Fauci, who has been a key advisor to President Trump and will continue in his position within the Biden administration has raised his estimates for this from when 60-70% of the population have received the double shot to when 75-85% have received them.

One of the first acts of the Biden presidency will be to deliver the cash required to ramp up the vaccination efforts but even so, the medical establishment suggests it may not be until the third quarter that this target is achieved and "normality" could fully return.

The strength of the recovery

Nonetheless, it is the state Governor and local mayors, rather than the President, that decides what happens in the individual states, cities and towns. We can well imagine that as the vaccination rates rise through the first into the second quarter and assuming hospitalisation rates decline in response to this and the lagged effects of past containment measures, "freedoms" will return more quickly.

We expect leisure and hospitality will gradually re-open and travel more widely tolerated. With households, that in aggregate have been paying down credit cards and building up savings, able to start to spend on previously prohibited activity there will be a vigorous rebound in the service sector. This will see a rebalancing of expenditure away from "things" to "experiences" as the population makes up for lost time.

Additional momentum is likely to come from fiscal policy. President Biden is seeking to "Build Back Better", which involves significantly increasing spending on infrastructure and green energy. The hope is that this will also deliver millions of new jobs.

The so-called "Blue Wave", which has [arrived](#) in the wake of the two Democrat Georgia senate seat victories, makes this easier to facilitate and gives us added optimism on the medium to longer-term growth outlook.

Given 2021 will see a focus on growth, we suspect promised tax hikes may be delayed until 2022/23 with tighter regulations for some industries also eased in at a later date. With the Fed

assuring us of ongoing loose monetary policy and a more benign trade backdrop relative to the Trump Presidency, it looks to be a recipe for very vigorous economic activity later this year.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.