

US: Decision time

The US economy has responded well to the reopening with output likely expanding at a 30%+ annualised rate in the third quarter, but challenges remain and there is evidence that the vigorous momentum is fading. The case for more fiscal stimulus is strong, with the 3 November election critical to determining how quickly a full recovery comes



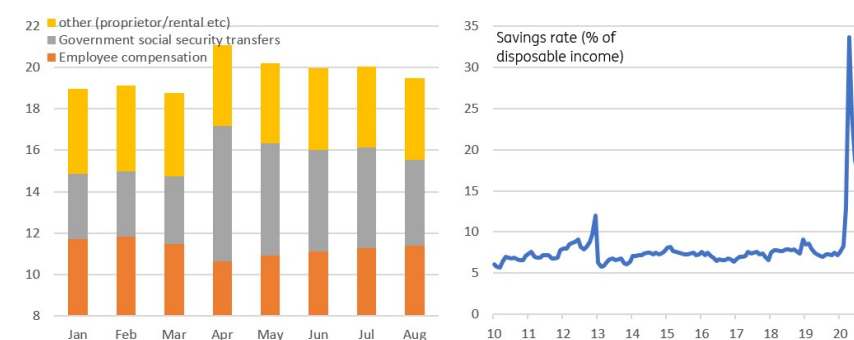
Source: Shutterstock

A strong start

The US economy contracted 10% through the first half of the year according to the GDP report, but high frequency data suggests the peak to trough fall through March and April was significantly greater. The US reopened relatively early in May with activity bouncing strongly as a combination of pent-up demand and generous unemployment support programmes fuelled growth.

Government social security transfers more than doubled between March and April as government cheques and the additional \$600 per week Federal unemployment benefit payment more than offset the 10% fall in employee compensation resulting from worker layoffs. Initially, this led to a spike in the savings ratio as Covid containment measures limited the opportunity to spend the income gains, but reopening has gone well with the consumer leading the recovery.

US personal income (\$tr) and the household savings ratio

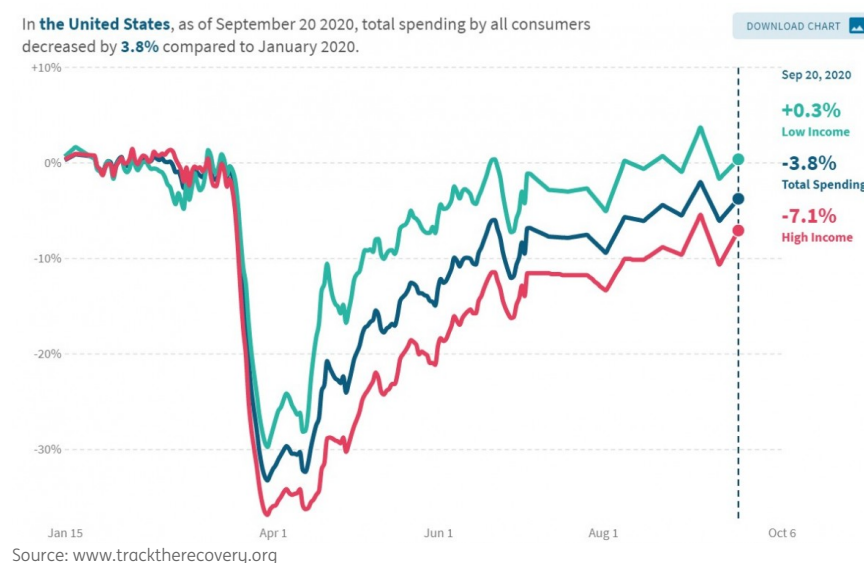


Source: Macrobond, ING

Low income households have led the recovery

As the chart below shows, it is low-income households buying physical “things” that have been the key driver behind the rapid recovery in spending. Higher income households, who typically spend more of their income on “experiences” and services such as leisure, entertainment and restaurants, continue to lag behind.

Consumer spending on credit and debit cards by income group

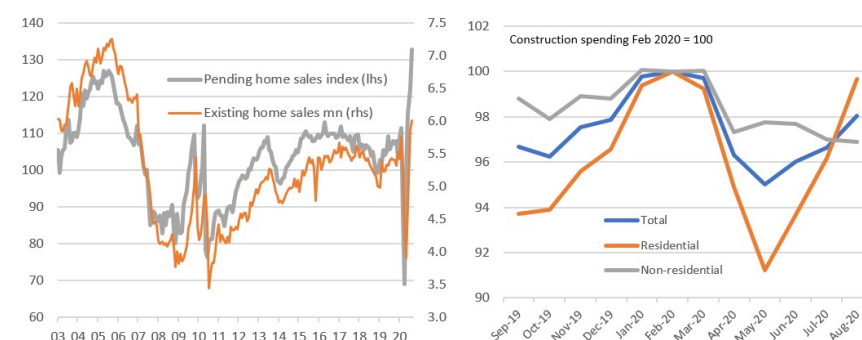


Residential investment a big boost for growth

Nonetheless, higher income households are seemingly spending money on property. Record low mortgage rates and a sense that “working from home” will become a long-term structural change to working practices has led transactions to reach levels not seen for nearly 15 years. Construction is already surging back to pre-pandemic levels and with pending home sales at all time highs, residential investment looks set to remain a key growth driver over coming quarters.

Throw in the fact that business surveys look very robust, inventories are being rebuilt and decent durable goods orders suggest investment has stabilised and we now expect to see 3Q GDP growth at a record 34.5%.

Property transactions and construction



Source: Macrobond, ING

More support needed

However, there are increasing signs that the vigorous upward momentum is fading. Payrolls growth is slowing at a time when employment is still 10.7 million lower than February. There is also evidence of a plateau in hotel stays, travel and restaurant bookings while we know income growth is also dropping as unemployment benefits are trimmed lower.

Covid-19 will continue to present challenges for the economy for many more months, while election tensions could also weigh on sentiment. The bruising election battle isn't helpful for the recovery as it limits the scope for another fiscal stimulus in the near-term with President Trump having told Republicans to pull out of talks on a new package. Nonetheless we are forecasting 4Q GDP growth of 4.5% annualised, which would leave 2020 output around 2.2 percentage points below 2019.

2021 - all about the election

The outlook for 2021 is all about the election. The first Presidential debate failed to give Donald Trump a much needed boost in the polls and his admittance to hospital following a positive Covid-19 test hasn't generated much of a sympathy vote. Indeed, opinion polls suggest a growing likelihood of a Democrat clean sweep which could pave the way for a massive fiscal stimulus in early 2021, focusing on income support and front-loaded energy infrastructure investment projects.

While such a development should boost the outlook for growth, jobs and corporate profitability, markets remain wary of a higher tax, more highly regulated economic environment under Joe Biden. Offsetting this to some extent would be a more internationalist approach that could lessen the prospect of additional trade barriers and tariffs.

The conventional view is that a Trump victory would be good for risk assets and Biden would be bad. However, the Senate and House outcomes are critical to the passing of legislation and while that may indeed be the initial knee-jerk reaction, the medium to longer term implications will be more nuanced.

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