

US: Forget the “V”

With virus fears on the rise, jobs being lost and incomes squeezed, we feel the second phase of the recovery will be much more challenging, especially in the absence of a new broad and substantial fiscal package. And all of this suggests, financial markets optimism on a 'v' - shaped rebound could be severely tested in the next couple of months



Movement of people wearing a protective mask and maintaining social distance, Domino Park, Brooklyn

Source: Shutterstock

US economic output plunged 10.6% through the first half of the year. Yet as containment measures were eased through May and June the economy has bounced back strongly, led by the US consumer. There was certainly plenty of pent-up demand as we escaped the confines of our homes, but substantial stimulus from both the Federal Reserve and the Federal government undoubtedly fueled the recovery story.

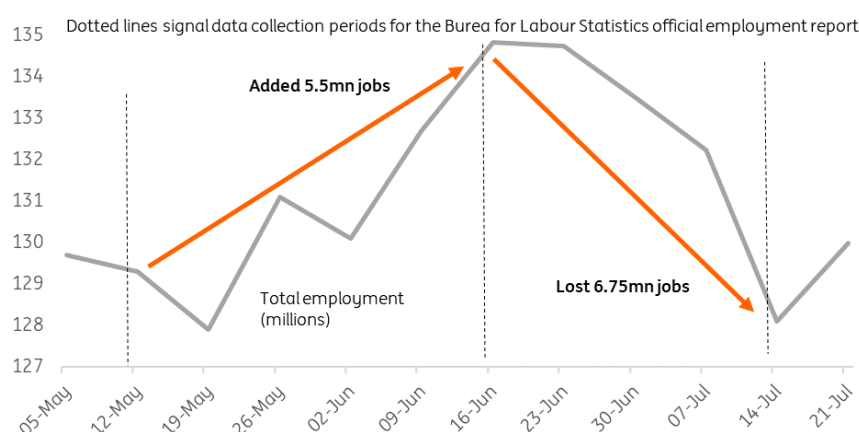
Aggressive central bank action lowered borrowing costs, kept credit flowing and supported confidence and asset prices. Meanwhile, a \$2+ trillion fiscal package provided a critical lifeline to households and businesses. Unfortunately, there are growing challenges to the recovery story.

Firstly, the recent spike in Covid-19 cases is hurting confidence. It is also leading many State

Governors to reverse course on their re-opening plans as they worry about strains on their healthcare systems if rising infection rates are left unchecked. The result is that businesses that had re-opened are being forced to close again with workers losing their jobs.

The Census Bureau's new Household Pulse survey suggests that employment may have reversed much of its gains since May. Perhaps most critically for near-term consumer spending the US\$600/week unemployment benefit boost given to 30 million claimants ended in July. Talks on another fiscal stimulus are dragging but in all likelihood, it might be replaced with something much smaller in size.

Census Bureau Household pulse - employment millions



So, with virus fears on the rise, jobs being lost and incomes squeezed, the second phase of the recovery will be more challenging. In the absence of a timely and substantial fiscal package we should be braced for the threat of weaker employment and spending numbers, which will provide a major test for financial market optimism on the "V" shaped recovery.

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