

## US: The long road home

While there are glimmers of hope as a re-opening tentatively gets underway, the damage wreaked on the economy will take a long time to repair



People walk on Brooklyn Bridge Park's rebuilt Squibb Bridge in New York.

Source: Shutterstock

The economic newsflow over the past month has been grim with activity and employment both collapsing. The running total for new unemployment benefit claims since the initiation of lockdowns is in excess of 30 million. The majority of those impacted were employed in retail, travel and hospitality, but unemployment is spreading to other sectors.

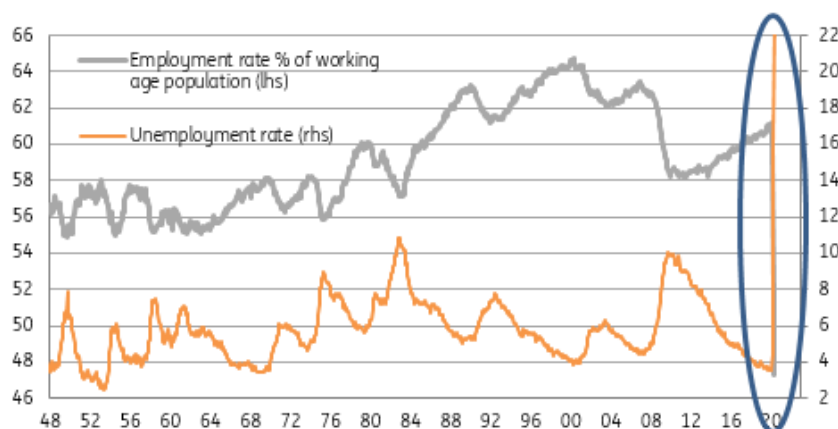
The latest ISM manufacturing production index hit an all-time low while its employment component is the weakest since 1949, suggesting significant job losses are coming in this sector. Business services will not be immune while the devastation in the oil and gas industry is plain for all to see. We expect unemployment to breach the 20% level in May with a clear risk it gets close the 1933 peak of 24.9%.

We must also remember that one third of Americans aged 16-65 are not classified as economically active – they are students, retirees, homemakers, carers or sick. This leads us to yet another sobering statistic – that less than half of working age Americans will be earning a wage this month. In an election year, the call for politicians to re-open the economy is only going to get louder, irrespective of the health advice.

Some states have started the process, most notably Georgia, Tennessee and South Carolina. However, even here we are a long way away from “normal”. Social distancing requirements mean restaurants can only open with much reduced capacity to the extent that it simply isn't economically viable for many to do so. At the same time, there is consumer caution about going to shops and restaurants. This is likely to be repeated elsewhere as other states start easing restrictions. With numerous businesses likely to fail as the lockdowns take their toll, unemployment is unlikely to fall quickly – 8-10% would be a good outcome for end 2020.

After contracting 1.2% in 1Q 2020 (4.8% annualised), we expect the economy to experience a peak to trough decline in excess of 13% by the end of 2Q 2020. Given ongoing social distancing for several more months, lingering consumer caution and the legacy of nearly 40 million jobs lost, we see little prospect of a V-shaped recovery. Even with additional fiscal support, the lost economic output may not be recouped until early 2023.

## How bad could it get? Unemployment & employment 1948-2020 with ING's forecast for May



Source: Macrobond, ING

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto: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 <http://www.ing.com>.