

## 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.

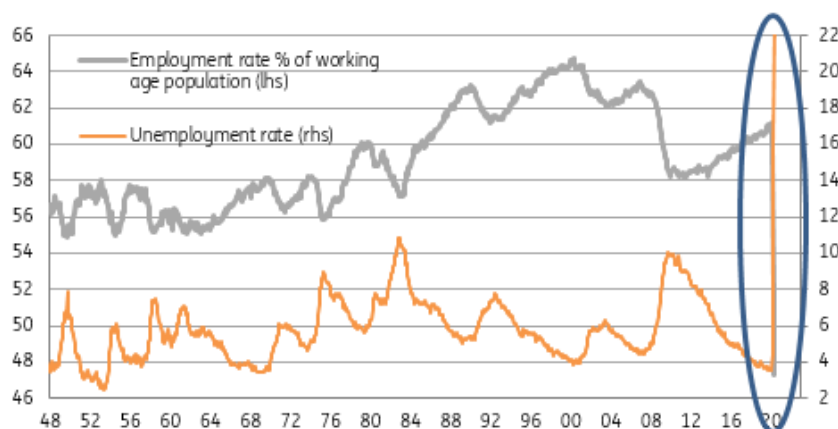
The latest ISM manufacturing production index hit an all-time low while its employment component is the weakest since 1949, suggesting significant job losses are coming in this sector. Business services will not be immune while the devastation in the oil and gas industry is plain for all to see. We expect 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

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