

## US: The wrong direction

Covid-19 infections and hospitalisations are on the rise in many states, leading to fears that the recovery could falter in response to renewed restrictions and consumer caution. In the absence of a vaccine the Federal government will need to provide more support to keep the economy on the recovery track



Federal Reserve Chair Jerome Powell and U.S. Secretary of the Treasury Steven Mnuchin greet each other after testifying before the House Financial Services Committee

Source: Shutterstock

### Consumer sector offers encouragement

After hitting rock bottom in April, economic activity in the US bounced as the re-opening process gathered momentum in May and June.

Google Covid-19 mobility data focusing on movement around retail and recreation venues suggests states like Montana and Idaho are experiencing above “normal” activity. However, in more populous states, such as Illinois and Michigan, activity remains about 15-20% down while in California and New York the mobility data suggests activity is still around 30% lower versus pre-Covid-19 levels.

---

*Is the US is experiencing self-sustaining growth or is this merely*

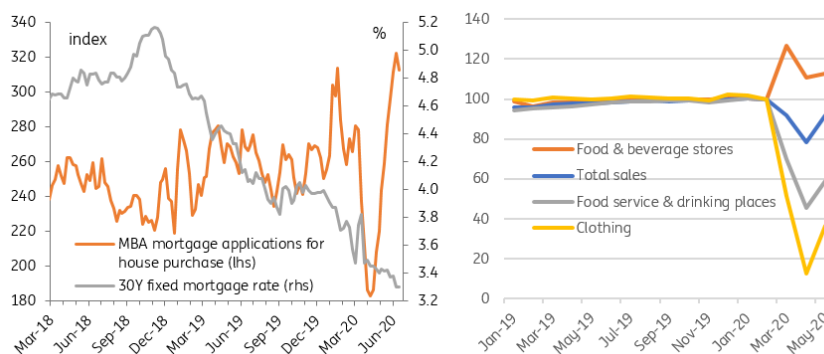
*pent-up demand fuelled by the novelty of being able to visit a shop or a restaurant?*

Overall though, consumer activity has performed well with the housing market and car sales obvious areas of strength. Mortgage borrowing costs are at record lows while auto manufacturers are offering interest-free financing for up to five years, making it an attractive time to buy. Moreover, the typical home and car buyer is around late forties to early fifties and will have been less exposed to the job losses in retail and hospitality (which are usually filled by younger workers) and is more financially secure with better credit rating.

Broader retail activity has also rebounded, albeit to a lesser extent, with aggressive Federal government action deserving of credit. Extended unemployment benefits have broadened the number of recipients to include the self-employed and independent contractors while the extra \$600 per week payment means many claimants are receiving higher incomes than they did when they were actually working[1].

[Working paper: US unemployment insurance replacement rates during the pandemic](#)

### Mortgage applications surge as retail starts to recover



Source: Macrobond, ING

### Self-sustaining growth or pent-up demand?

The key question is whether the US is experiencing self-sustaining growth? Or is it merely pent-up demand fuelled by the novelty of being able to visit a shop or a restaurant that will fade away as harsh economic realities bite?

There are three key areas to focus on. Firstly, and most importantly, it's the virus itself. The number of cases has risen sharply over the past few weeks, particularly in southern and western states that opted for an early, aggressive re-opening schedule. This is starting to put a strain on hospitals. In response, some state governors are reinstating restrictions such as closing bars, a limited number of customer numbers on premises and better policing of face mask requirements. Other states will likely follow while states that are further behind in the re-opening process may become more hesitant to push on with their phased programs.

Just as important is how consumers respond to the situation. Will fear of catching the virus see

people choose to stay at home, thus further damaging the prospects for recovery?

## The jobs story may be losing momentum

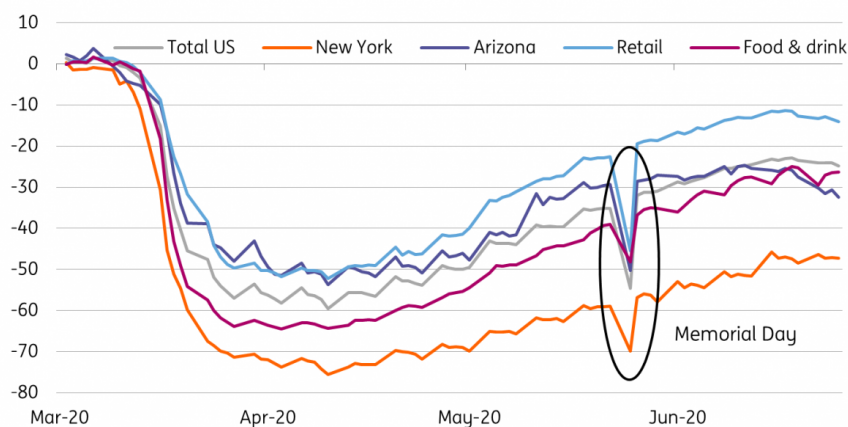
Secondly, the jobs market. The shock increase in employment in May boosted hopes that the US economy was well on the road to recovery. Unfortunately, the news since then has been less rosy.

Initial jobless claims remain elevated at just under 1.5 million – more than double the worst weekly reading of any period during the financial crisis - while continuing jobless claims remain at around 20 million. Add in all the people who are claiming some form of unemployment benefit and it equates to 20% of the workforce well above the 13.3% “official” unemployment rate published by the Bureau for Labour Statistics.

More worryingly, daily data from Homebase, which is an employee scheduling and time tracking tool used by many small businesses, suggests that employment is falling once again. One possible explanation is that many small businesses that took advantage of the loan forgiveness aspect of the Paycheck Protection Program have exhausted the money.

In this regard, the National Federation of Independent Businesses reported 14% of members that took advantage of the scheme are expecting to fire staff in coming weeks given demand has not returned to pre-Covid levels. If renewed containment measures make it unviable for businesses to operate then it will only add to the problems in the jobs market.

## Homebase: Hourly employees that day vs. the median for that day of the week for the period Jan 4, 2020 – Jan 31, 2020 (% difference)



Source: Bloomberg, ING

## More Federal support will be needed

The third factor is fiscal and monetary support. The Federal Reserve continues to state that a full recovery is unlikely until “people are confident that it is safe to re-engage with a broad range of activity”. Given the lack of progress on a vaccine, this could be a prolonged period so they will continue to ensure market functioning in an environment of ultra-low interest rates for the next couple of years.

---

*House Democrats have approved a \$3 trillion stimulus, but this won't get through the Republican-controlled Senate. In the end, we suspect a \$1-1.5 trillion package will eventually get approved this summer*

---

However, we suspect that the Federal government will need to do more to keep the US economy on the recovery path. July sees the ending of the \$600 per week boost to unemployment benefit and with around 30 million people still claiming, if there isn't some form of extension household incomes will fall sharply. Failure to take action would severely dent the chances of a rapid recovery.

Additionally, individual states are struggling financially due to higher Covid-related costs and lower tax revenues. They will need more Federal support otherwise we could see tens of thousands of state and local government workers laid-off. House Democrats have already approved a \$3 trillion stimulus, but this won't get through the Republican-controlled Senate. In the end, we suspect a \$1-1.5 trillion package will eventually get approved this summer, but it is unlikely to be plain sailing.

## **A long road to a full recovery**

Bringing it all together, the recent data suggests that the 2Q GDP contraction will not be as large as we had been fearing – perhaps -35% annualised rather than -40%.

*We think 2Q GDP contraction will not be as large as we had been fearing – perhaps -35%*

Unfortunately, the pick-up in Covid-19 cases and the more troubling newsflow from the jobs market is adding to the uncertainty surrounding the outlook for the recovery in the second half of the year. We doubt there will be a return to full lockdowns, but even temporary restrictions will hurt growth prospects and further dampen inflation pressures.

We doubt the economy will regain all the lost output until the second half of 2022. While supply Treasury supply may put some upward pressure on bond yields, we don't expect there will be a meaningful break above 1% for the US 10-year anytime soon given the economic backdrop and absence of inflation.

## 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>.