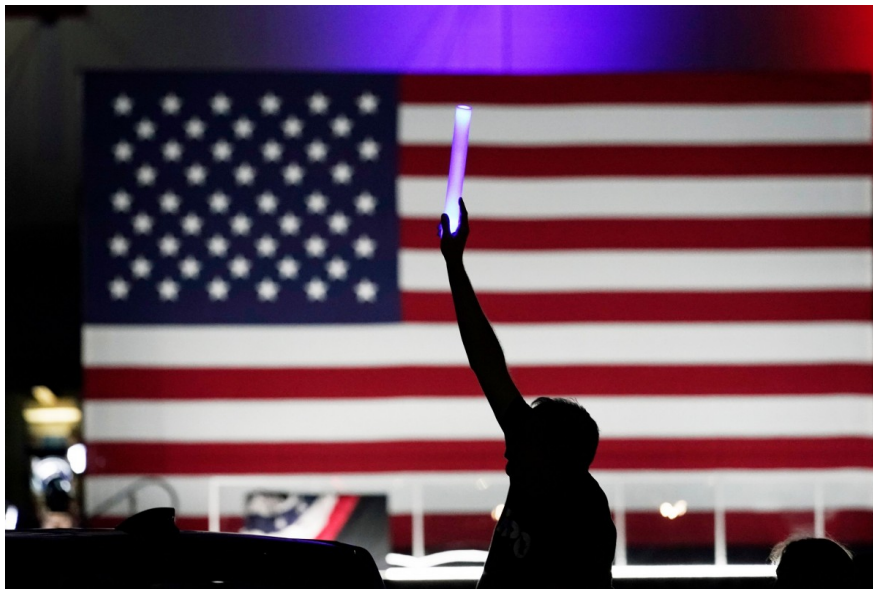


US: The surge subsides

High-frequency data suggests that the post-reopening surge in activity began to moderate in July and this process continued throughout August. With the pandemic continuing to create many challenges, we doubt the economy will fully heal before 2022



Source: Shutterstock

Signs of plateauing

The US economy has rebounded vigorously in the wake of the reopenings that started in May and we have revised up our growth forecast for 3Q20 in response to the stronger tone from the data. Consumer spending is nearly back to where it was pre-pandemic and manufacturing output is bouncing strongly. Meanwhile, equity markets are at new all-time highs on optimism that the US is firmly on the road to recovery.

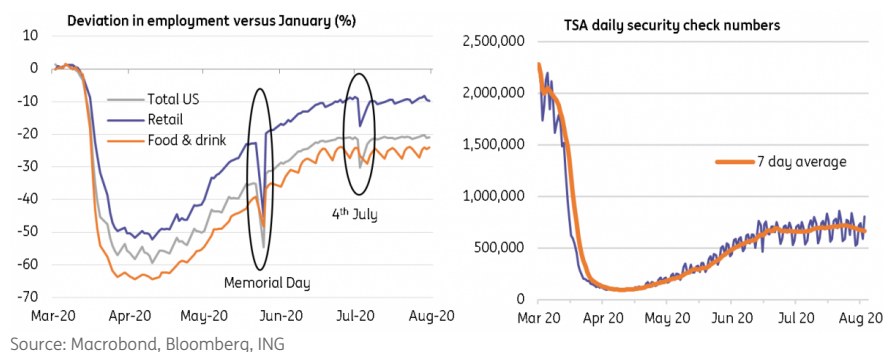
However, we continue to believe that equity markets are pricing in too positive an assessment over the medium term.

Firstly, consumer confidence has fallen back to cycle lows on the back of health anxieties in response to a recent acceleration in Covid-19 cases. In turn, this has prompted back-tracking from several states, resulting in the reintroduction of containment measures that have had a

detrimental impact on many businesses and employment prospects.

Then there is the impact of the reduction in the additional Federal unemployment benefit payment from \$600 to a notional \$400 per week.

Homebase employment data & TSA security airport check numbers



Political and structural risks set to weigh

High-frequency labour market indicators already suggest a plateauing in job creation and the same can be said for credit and debit card transaction numbers. Likewise, there has been a levelling off in passenger flights and hotel bookings. It looks as though the recovery is losing some momentum with 4Q GDP growth likely to be substantially lower than the 26% annualised figure we expect for 3Q.

Given the short, medium and long term issues, we continue to think it will be mid-2022 before all of the 1H20 lost output is fully recovered

A divisive presidential election campaign could take further steam out of the recovery especially if protests and violence spread to more US cities.

Concern over whether the postal system can cope with a surge of mail-in voting is also a major issue. It could mean that it could be days or even weeks (if there are legal challenges) before we know who has won, which would add an extra layer of uncertainty that could be economically disruptive.

Uncertainties over the timing and efficacy of a vaccine coupled with the threat of a renewed spike in Covid-19 cases in the latter part of the year mean the strains facing the travel, hospitality and entertainment industries will continue. Given these sectors are relatively large in the US this adds to our wariness on getting too excited about the speed of recovery. Then there are the structural effects of a more permanent work from home attitude from workers and what this means for metropolitan centres when there is less consumer footfall.

Given these short, medium and long term issues, we continue to think it will be mid-2022 before all of the 1H20 lost output is fully recovered.

Author

James Knightley

Chief International Economist, US

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>.