

Recovery - but what sort?

Promising signs from the US provide cause for optimism, but let's not get carried away



Stronger US data

Here are some must-read notes from James Knightley on [the state of the US recovery](#), and also last Friday's [eye-popping payrolls figures](#).

So, OK, you can take issue with the latest US labour numbers, but then you always can. What I think we can now say is that at the moment the US economy began to re-open, the economy began to improve.

This is the flip side of my lockdown mantra, which is that "lockdown's work, but they also hurt". Further easing will likely see further improvements across a broad range of indicators.

But before you get too carried away, this is hardly an endorsement of V-shaped recovery, though as JK also notes, this is the experience for the new homes markets, and auto sales are also looking fairly buoyant too. Elsewhere, the continued existence of social distancing rules, plus the "permanent" job losses associated with the lockdowns mean that it will likely be some time before that lost output is made up. If it took 14 quarters to recoup the losses of the global financial crisis (as Knightley also points out), will we really see a much quicker recovery from Covid-19? And what even constitutes a "V" in this context? A two quarter recovery? Three?

Honestly, I think the whole discussion of what letter shape the recovery will be is so flawed and prone to misinterpretation and abuse, that this is literally going to be the last time I mention it in these notes (this feels like a promise I know I am not going to be able to keep, but I'll try).

To finish this section, I saw a nice tweet over the weekend on this, noting that the early gains once the recovery takes hold (as it now appears to have done) could be strong. This is because some of the jobs and output lost were only loosely dislocated. The middle section could be more difficult, and the final part is likely to be very hard indeed. Intuitively, this seems a sensible summary of what we are likely to face. If so, we may still have a month or two of decent recovery to come before the gains start to slow.

China trade - not so buoyant

If the latest US labour data were unbelievably good, the latest Chinese trade data were credibly weak. [Iris Pang expands on this here](#). And not only are they weak, but the forward indicators for Chinese trade remain very soft. Even with a recovery in China underway, and Covid-19 largely under control, this is a decent reminder to those piling into risk assets that there is a long hard slog ahead, which rising China-US tensions over technology are likely to make worse. In other words, enjoy these US numbers, because the global picture remains extremely tough.

Today in Asia - Lite

There's not much on the calendar today in Asia, Prakash Sakpal notes this from Malaysia from the end of last week though, "On Friday, Prime Minister Muhyiddin Yassin announced a fourth stimulus package worth MYR 35 billion, including MYR 10 billion of direct fiscal thrust via wage subsidies and skills development programmes, and the rest in the form of tax exemptions. While this brings the total stimulus so far up to 20% of GDP, we estimate a real thrust (excluding easy credit, loan moratoriums, bank guarantees, etc. from the total package) of only 5.6%. This is poised to boost the fiscal deficit to a record high level, though the official view of the deficit doubling to 6% of GDP this year appears to be optimistic. Our deficit forecast before the latest package was 6.3% of GDP (3.4% in 2019). Local markets are on holiday today for the King's birthday".

Revised 1Q20 GDP data in Japan this morning were a bit below consensus, though improved on the previous iteration of the release, coming in at -0.6%QoQ, or -2.2% on an annualised basis. The changes are driven by some weaker consumer spending, which was more than offset by stronger business investment. It is very unlikely that we will revise our current -4.9% forecast for 2020 on the back of these numbers after such a small revision. These forecasts just aren't that mechanical, nor do we literally intend you to take seriously anything after the decimal point (but people fixate on this stuff and wouldn't be happy if we just said "very negative").

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