



US Outlook: Worst may be over, but recovery far from certain

The US second quarter GDP saw growth contracting by 32.9% which was the sharpest quarterly decline on record since data were made available in 1947. The previous record was a 10% decline in 1Q 1958.

The worst of the 2Q contraction was in April when economic activities ground to a halt as lockdown measures to contain the coronavirus (COVID-19) from social distancing, travel restrictions, “stay-home orders” and border closures exacted a heavy toll. Private consumption expenditure bore the brunt of the drastic decline while the dips in business and residential investments added to the shrinkage. Business spending had plummeted at a faster decline of -27% from

- 6.7% in 1Q. Residential investments also dived by -38.7% in 2Q after three strong quarters of growth.

Positives

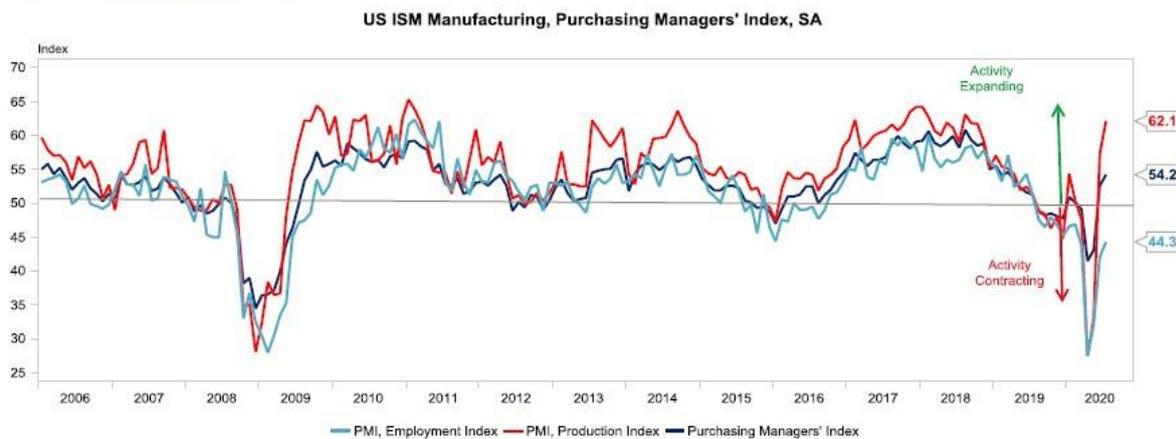
The positives were from government fiscal stimulus and net exports which helped cushion the 2Q growth destruction. The biggest contributor to seasonally adjusted annualized rate (SAAR) GDP or headline GDP had come from federal spending which surged 39.7% as government pandemic assistance payments were distributed to households and businesses. Net exports of goods and services added 0.68 percentage points to the change in headline GDP even though exports fell 64.1%. The positive contribution was due to the bigger offset from imports which recorded a smaller decline (-53.4%) versus that of exports.

US manufacturing entered the third quarter on a firmer footing as the Institute for Supply Management's (ISM) manufacturing Purchasing Managers' Index (PMI) rose to 54.2 for July, up from 52.6 in June. A reading above 50 means overall expansion in activity and conversely, a below 50 points to an overall contraction in activity. This was the strongest reading since March 2019 and marked two straight months of expansion.

But while the employment measure edged higher, it was still below the 50 mark at 44.3 (from 42.1 in June; pandemic low was at 27.5 in April) suggesting that the improvements in production and orders at 61.5 in July are not generating more jobs.

July US Manufacturing Boosted By Stronger Production But Hiring Still Missing

Source: Macrobond, UOB Global Economics & Markets Research



Outlook

If the pandemic continues at its current pace or even worsens, it may potentially mean a repeat of some of the draconian measures to contain it which will further dent the labor market. The US had lost a staggering 22.16 million jobs in March and April. Even with the sterling gains for May and June, total non-farm employment is still 14.7 million or 9.6% lower than in February. The COVID-19 situation could derail any near-term jobs recovery and hence consumer spending especially for in 3Q if there is no fiscal assistance as the \$600 in additional weekly jobless benefits had expired on 31 July, which by some estimates add up to U\$18 billion a week.

While we are still projecting a resumption of quarter-on-quarter growth in 2H 2020 on the assumption that the COVID-19 situation will improve or be partly under control by 3Q, any 2H rebound (+12.1% in 3Q and 7.4% in 4Q) will not offset the 1H contraction. Our full-year forecast is for the US GDP to contract by 5.8% vs +2.2% in 2019, which is more optimistic than the Fed forecast of - 6.5% and the -8% from the International Monetary Fund (IMF) in June.

Important Notice & Disclaimers

This publication shall not be copied, or relied upon by any person for whatever purpose. The information herein is given on a general basis without obligation and is strictly for information only. This publication must be viewed in conjunction with the oral presentation provided by UOB Asset Management (Malaysia) Bhd (“UOBAM(M)”). This publication is not an offer, solicitation, recommendation or advice to buy or sell any investment product, including any collective investment schemes or shares of companies mentioned within. The information contained in these publication, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of the document, all of which are subject to change at any time without notice. In preparing this publication, UOBAM(M) has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was otherwise reviewed by UOBAM(M). UOBAM(M) does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any error, inaccuracy, or omission. UOBAM(M) and its employees shall not be held liable for any decision or action taken based on the views expressed or information contained within this publication. Any opinion, projection and other forward looking statement regarding future events or performance of, including but not limited to, countries, markets or companies is not necessarily indicative of, and may differ from actual events or results. Nothing in this publication constitutes accounting, legal, regulatory, tax, or other advice. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. You may wish to seek advice from a professional or an independent financial adviser about the issues discussed herein or before investing in any investment product. Should you choose not to seek such advice, you should consider carefully whether the investment or product is suitable for you or your organization.

UOB Asset Management (Malaysia) Bhd 199101009166 (219478-X)

To find out more,
please visit www.uobam.com.my



RIGHT BY YOU