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

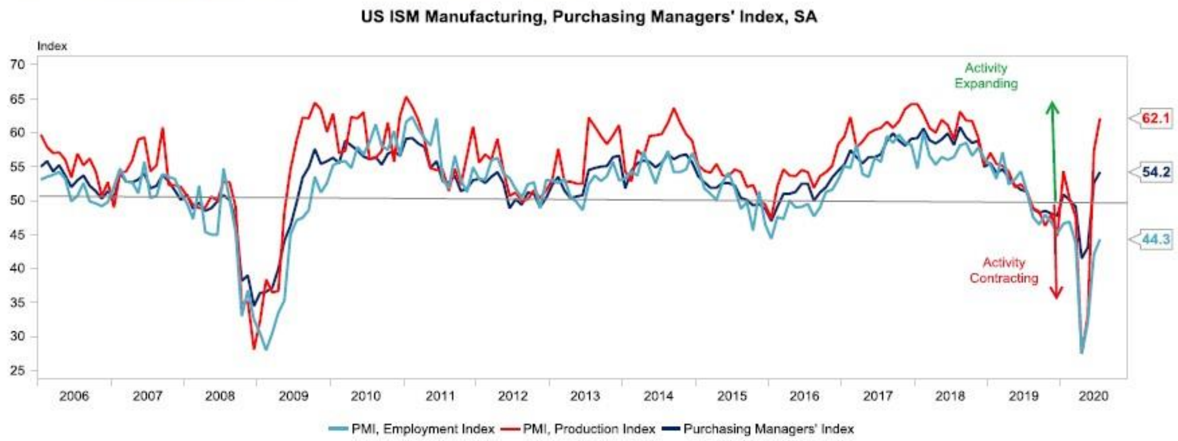
The positives were from government fiscal stimulus and net exports which helped cushion the 2Q growth destruction. The biggest contributor to seasonally adjusted annualized rate (SAAR) GDP or headline GDP had come from federal spending which surged 39.7% as government pandemic assistance payments were 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.

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