



US Outlook - What recovery after the lockdown?

Giovanna Mossetti

Senior Economist
Research Department

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Agenda

1 After the lockdown: what recovery?

2 The bottom and its boundaries

3 The rebound is here, but its speed is uncertain

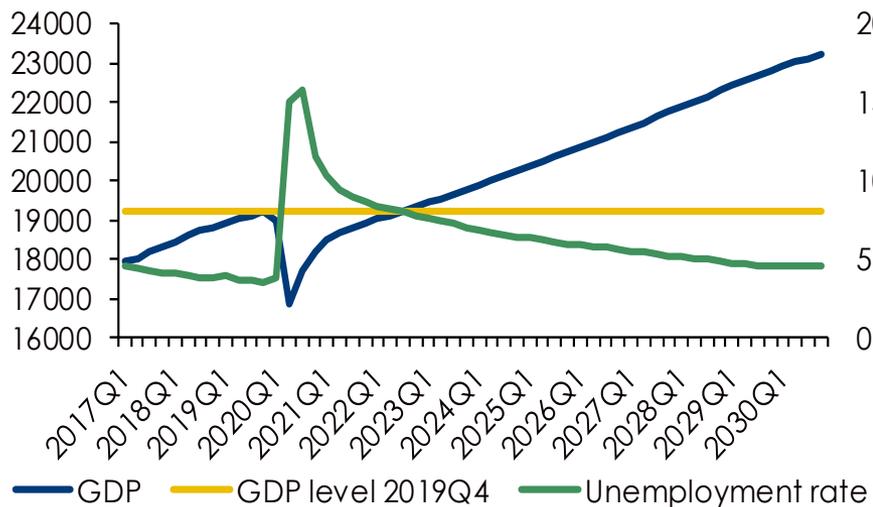
After the first COVID-19 wave, an uncertain future

- The COVID-related contraction currently under way in the US is without precedents since the Great Depression in terms of speed and depth. It differs from past recessions also in its origin (an epidemiological shock) and transmission mechanisms (simultaneous supply and demand shocks).
- **With no historical precedents and huge health-related risks, forecasts are as uncertain as ever**, but the main building blocks of the outlook seem now well established.
 - The initial collapse of activity and employment has not turned (and is unlikely to turn in the future) into a remake of the Great Depression, thanks to the massive policy response by fiscal and monetary authorities;
 - With the end of the lockdown, **a rebound in activity and employment is already on its way, and could be relatively swift in the central months of 2020;**
 - **The outlook over the medium term (from the Fall onwards) is subject to larger risks.** Even in the central scenario, growth is expected to be relatively subdued, subject to both epidemiological and economic risks.
 - The coming recovery depends on: 1) continuing policy support (with likely more fiscal stimulus); 2) ability of most firms to survive and adjust to new conditions (COVID is also a reallocation shock); 3) swift tracing and response to any future recurrences of contagions (until an effective vaccine is marketable).

The rebound, already on its way, may be quite fast at first but slow down later in the year

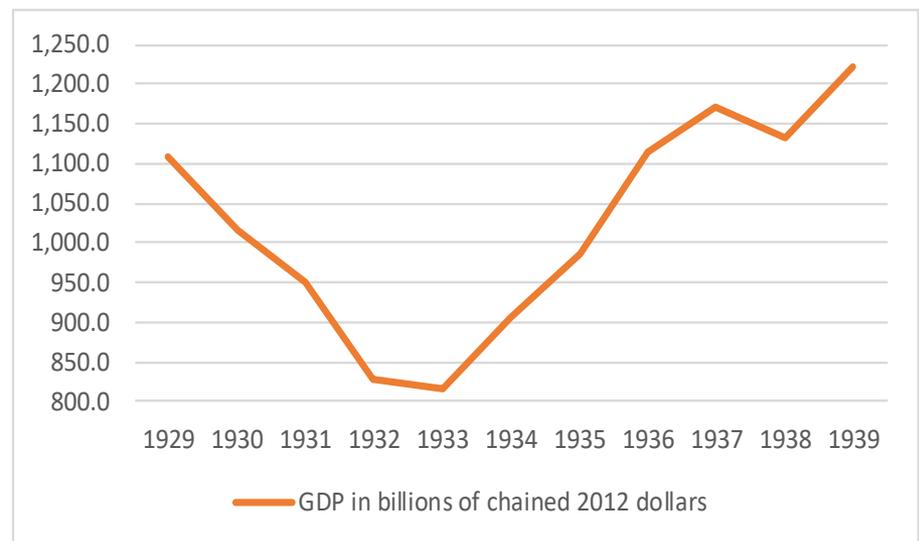
- **GDP likely to remain below end-2019 levels until at least the end of 2022.** The unemployment rate is not expected to hit the 2019 lows in the foreseeable future.
- The federal deficit may exceed 20% of GDP by the end of 2020 if another fiscal package is enacted during the Summer. Under current legislation, the CBO projects deficit/GDP at 17.8% in 2020.

The Covid-19 contraction: GDP likely to fall by close to 10% in Q2, then gradually rebound



Source: Congressional Budget Office

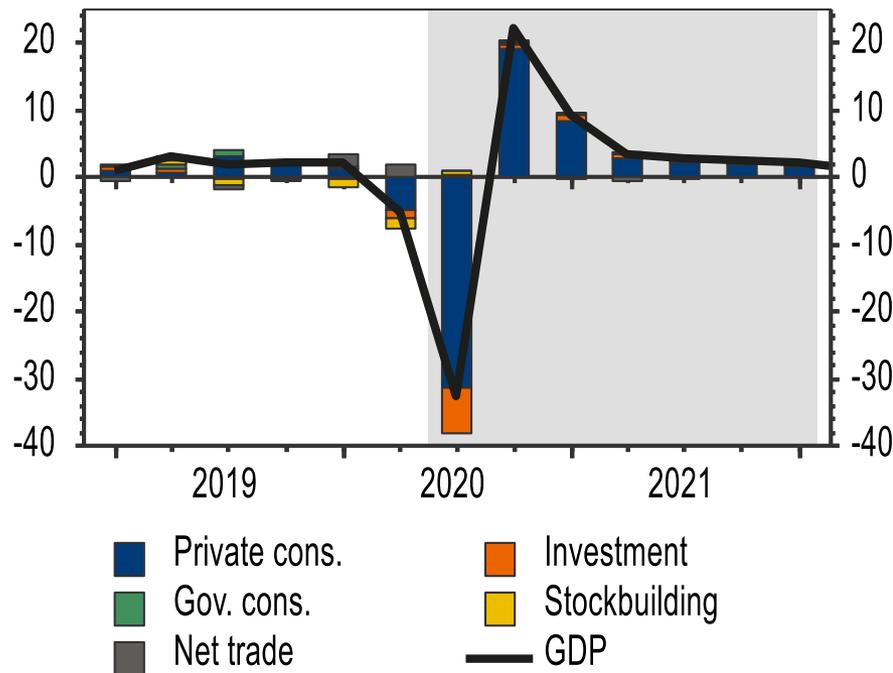
The Great Depression: output contracted by 26% in 4 years, by 11% in the first year



Source: Bureau of Economic Analysis

GDP to sink in Q2, rebound in Q3

GDP in Q2: that sinking feeling



Source: Intesa Sanpaolo forecasts based on Refinitiv and Datastream data

- **Intesa SanPaolo GDP forecast:** -4.7% in 2020, +3.5% in 2021.
- **Key variables** for the first leg of the recovery (Q3): consumption and public support.
- From Q4 onwards, the main focus will be on business survival in the post-pandemic environment, labor market improvement, health issues, election outcome.
- **Epidemiological risks.** Renewed contagions, lingering social distancing => more voluntary &/or publicly imposed restrictions.
- **Economic risks.** Risks to the downside in H2 and beyond if i) firms shut down permanently, ii) unemployment remains high and subsidies end.

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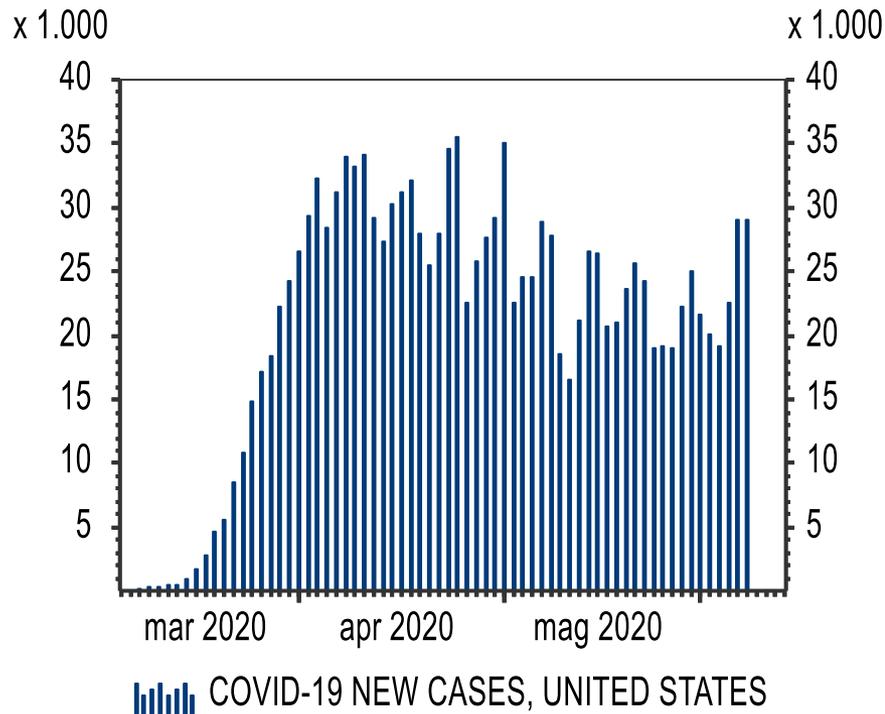
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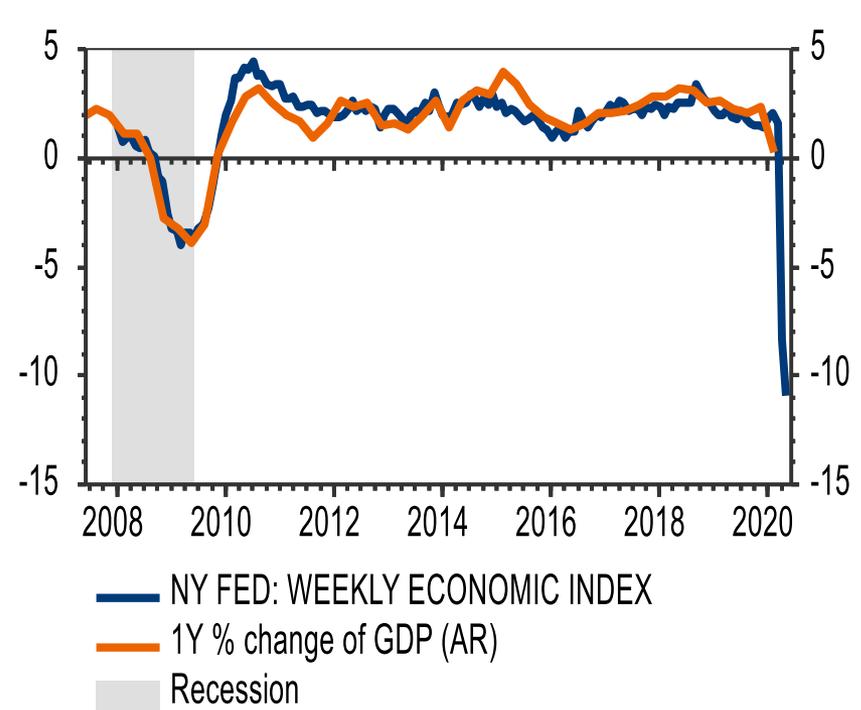
The epidemiological and economic pictures: the US is not out of the woods

Health: the pandemic is
not yet under control



Source: Refinitiv Datastream

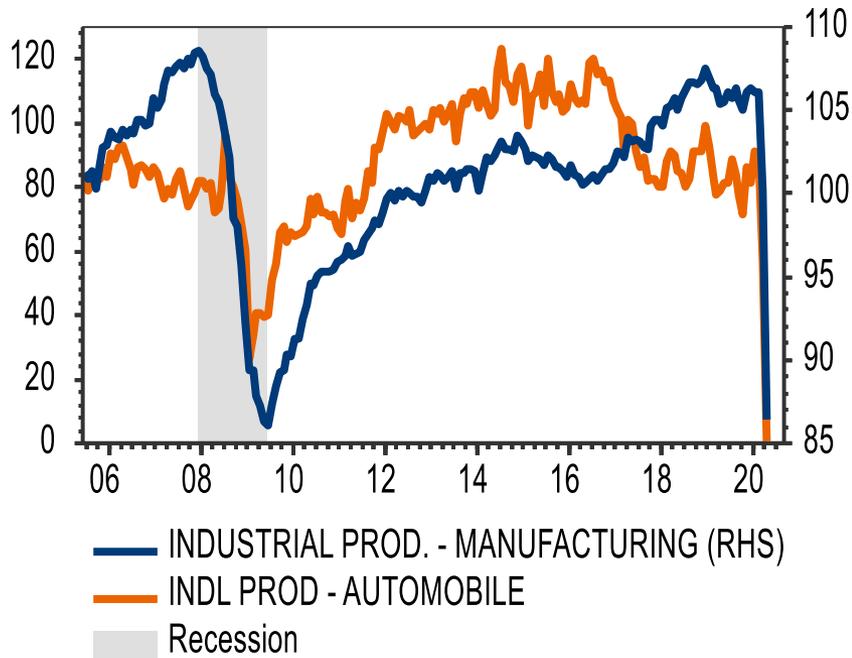
Economy: the worst is over,
but what lies ahead?



Source: Refinitiv Datastream

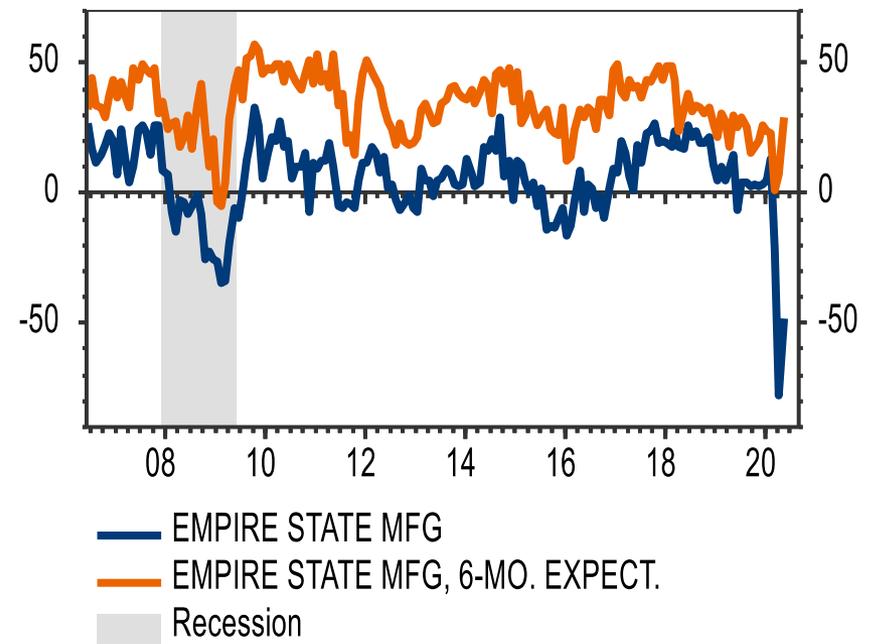
How low is the bottom? Manufacturing shutdown ...

Manufacturing crashed in April ...



Source: Refinitiv Datastream

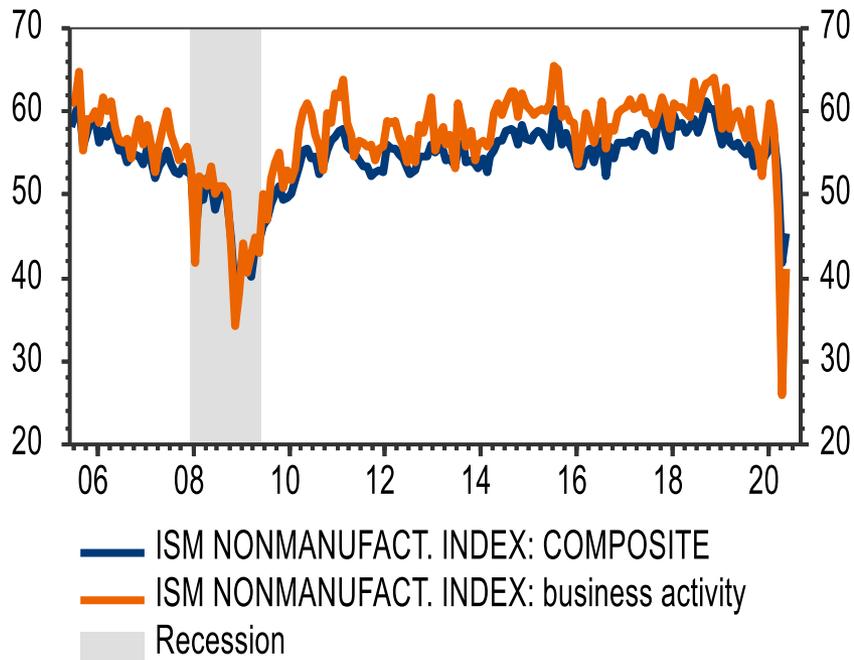
... but the bottom is behind us



Source: Refinitiv Datastream

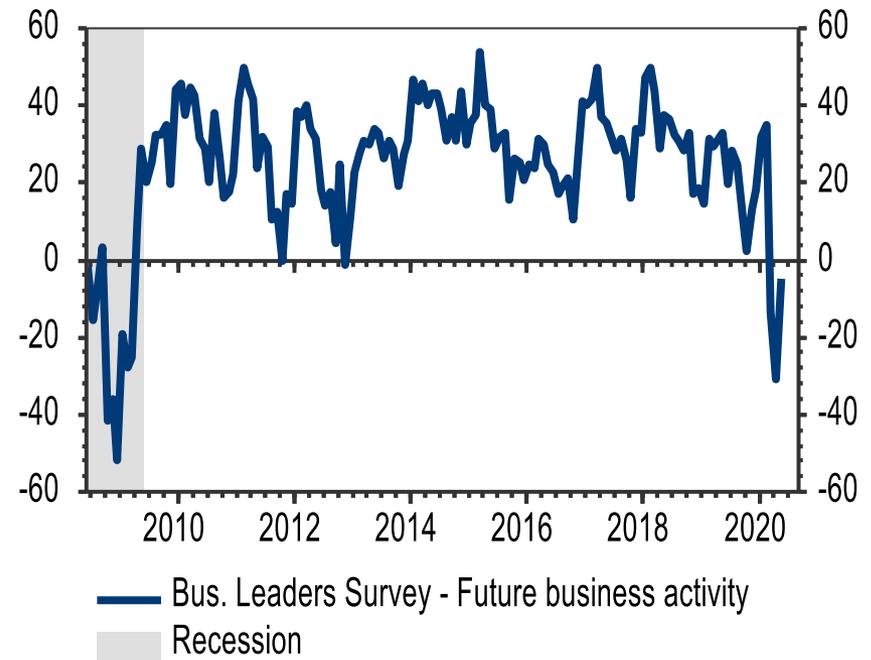
... and service sector collapse

Non manufacturing: dramatic collapse



Source: Refinitiv Datastream

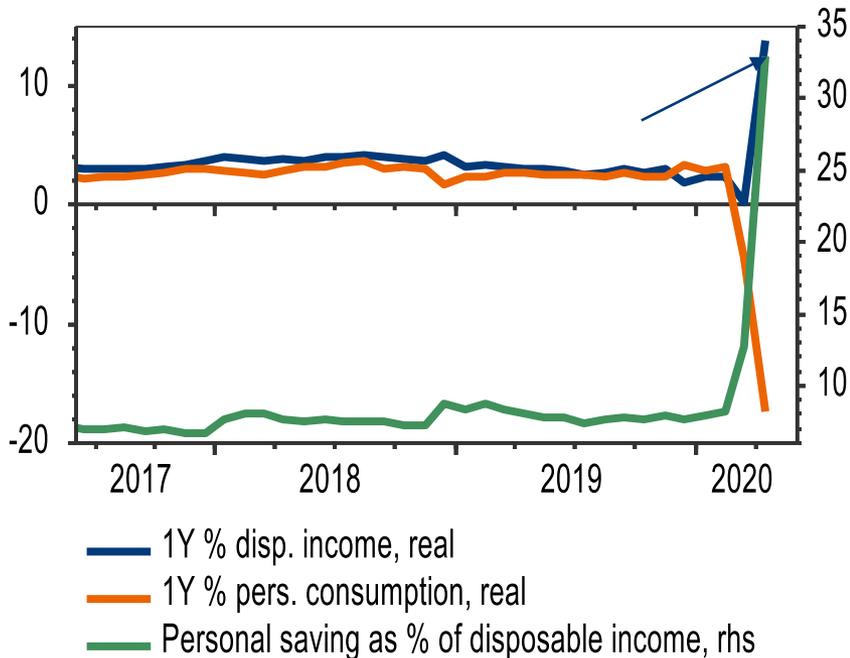
Service sector on the eve of a rebound



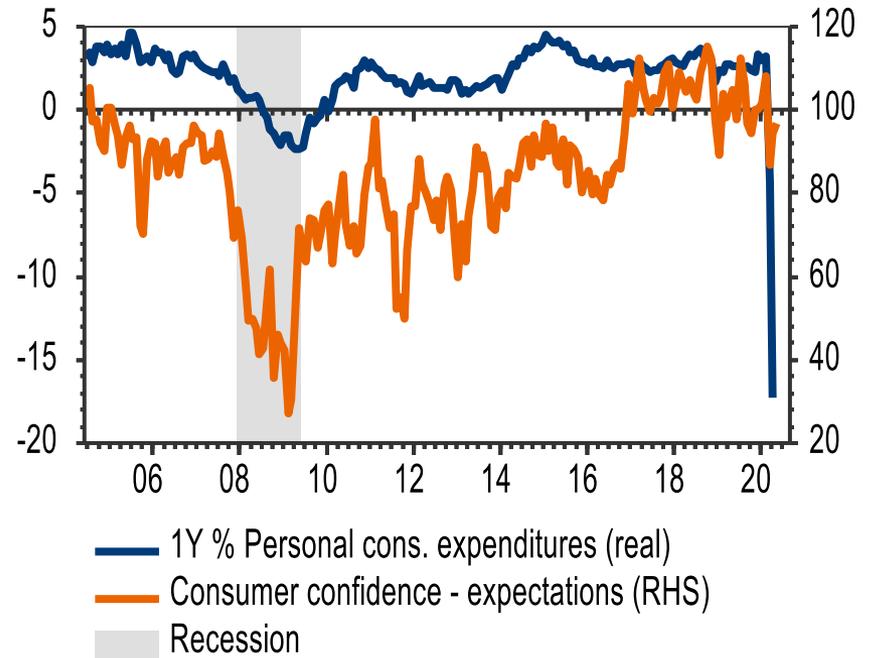
Source: Refinitiv Datastream

Consumption: unprecedented fall, expected to be short-lived

Consumption sinks, income and savings fly.
This is the key for the rebound



Households expect the downturn to be temporary

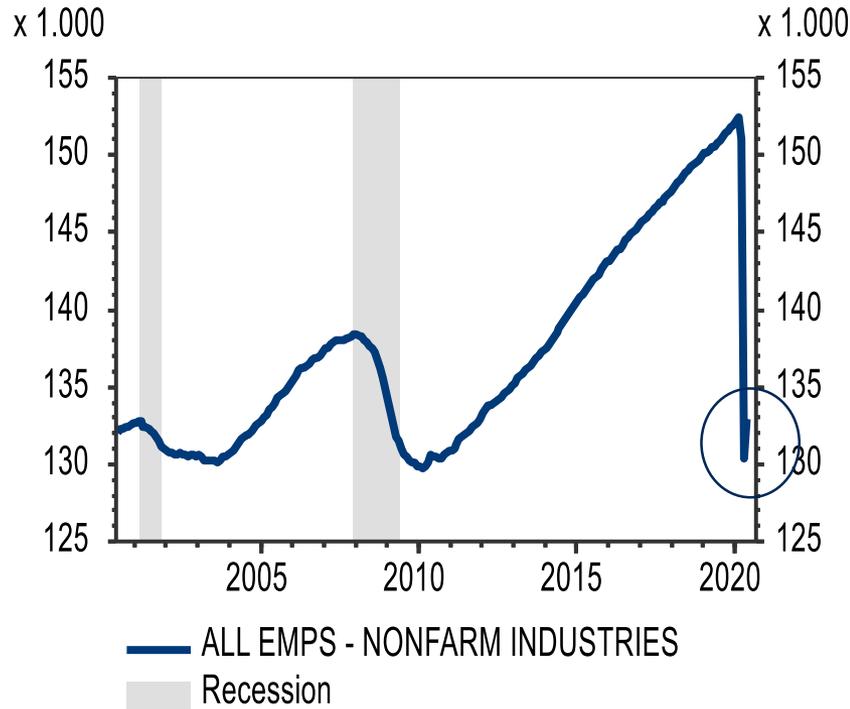


Source: Refinitiv Datastream

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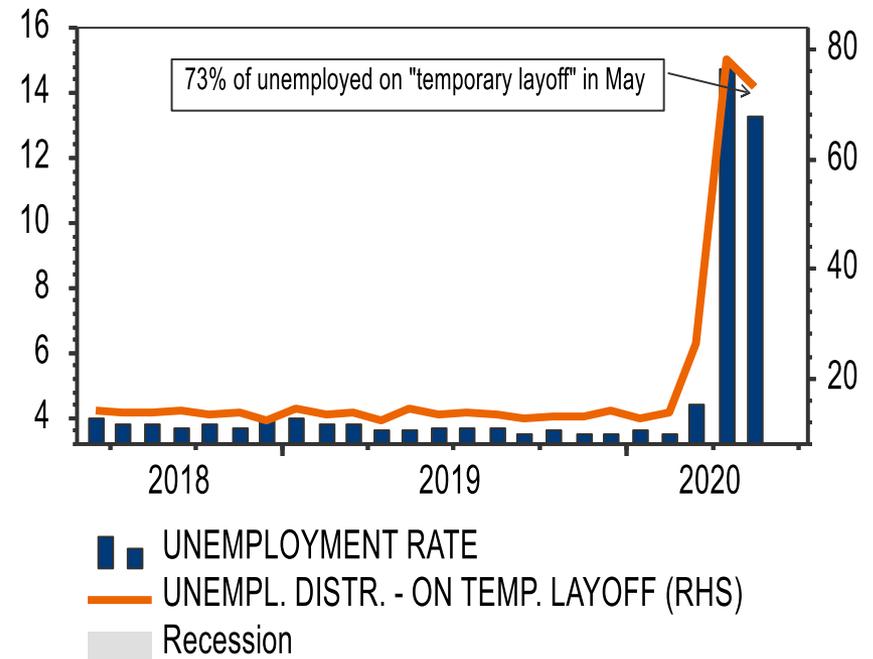
Labor market: a dramatic fall, a gradual pick-up

The jobs gained in a decade were lost in one month, some have returned



Source: Refinitiv Datastream

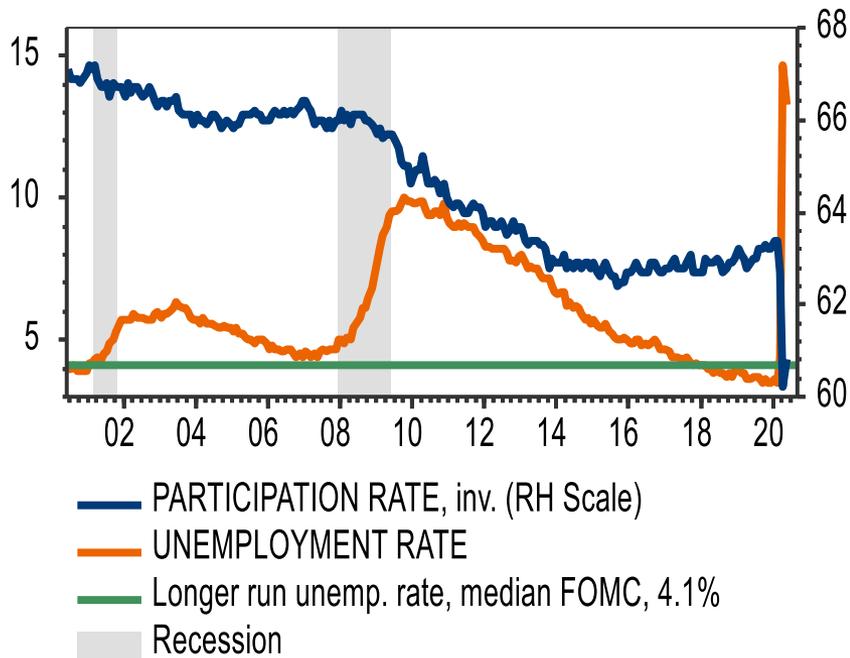
Most unemployed believe job losses will be temporary



Source: Refinitiv Datastream

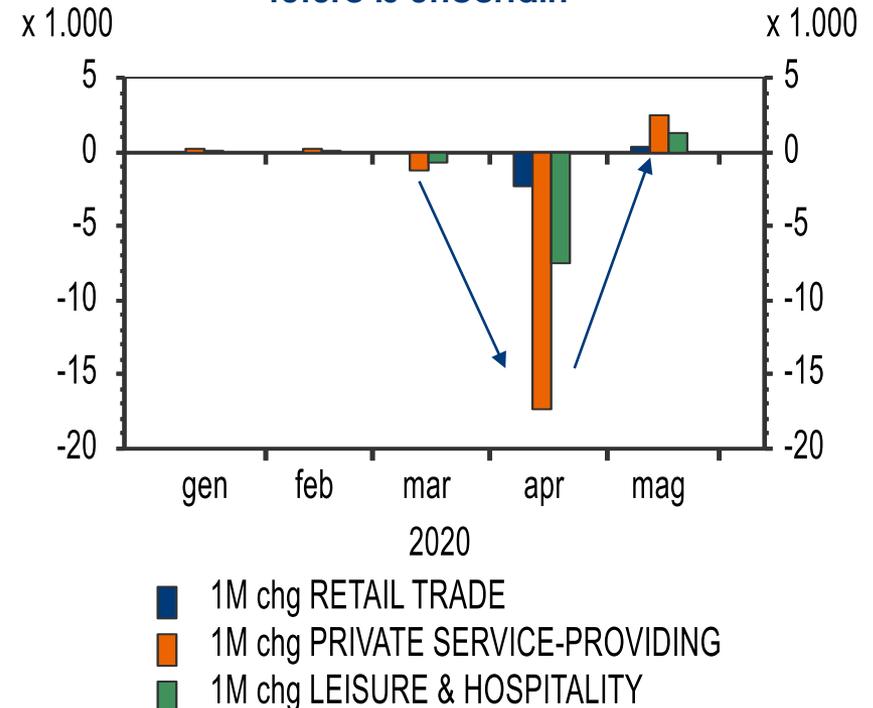
Major uncertainties going forward: participation rate and employment in the service sector

The participation rate is almost 2 pp below February's level



Source: Refinitiv Datastream

A small percentage of the jobs lost in the hardest-hit sectors is already back, but the future is uncertain

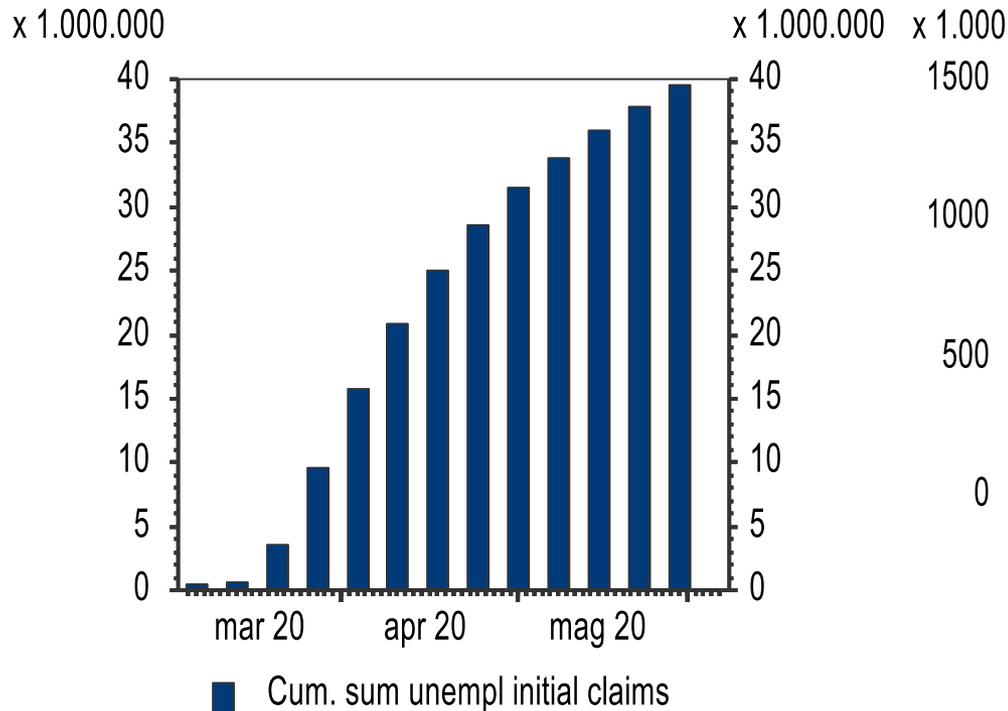


Source: Refinitiv Datastream. Data in mln.

Out of a job, but not out of income!

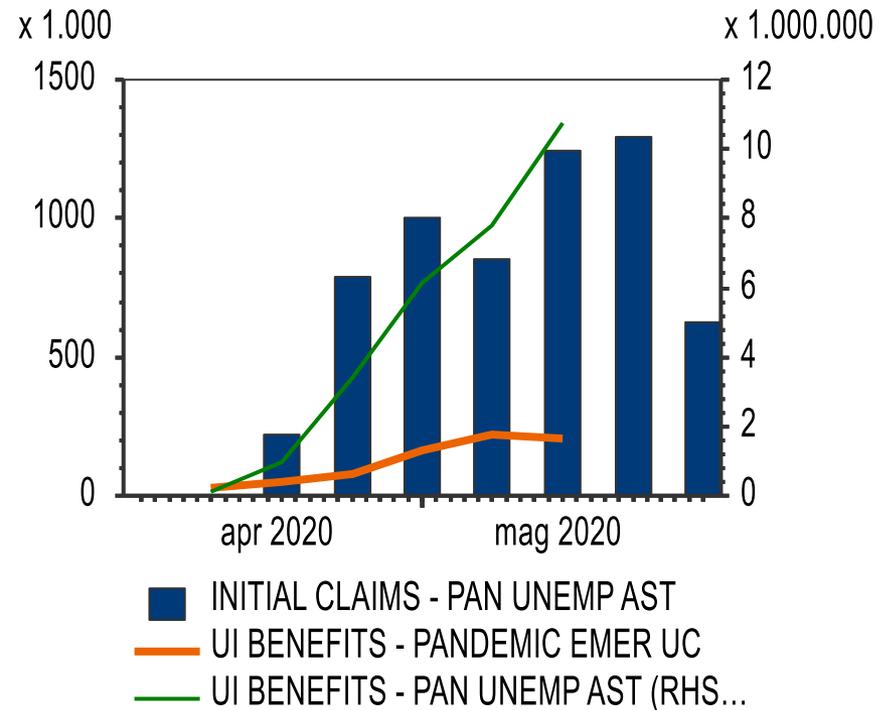
83% of unemployment subsidies' recipients are earning more with benefits than with their jobs (CBO estimates).

Almost 40 mln people applied for regular State unemployment subsidies



Source: Refinitiv Datastream

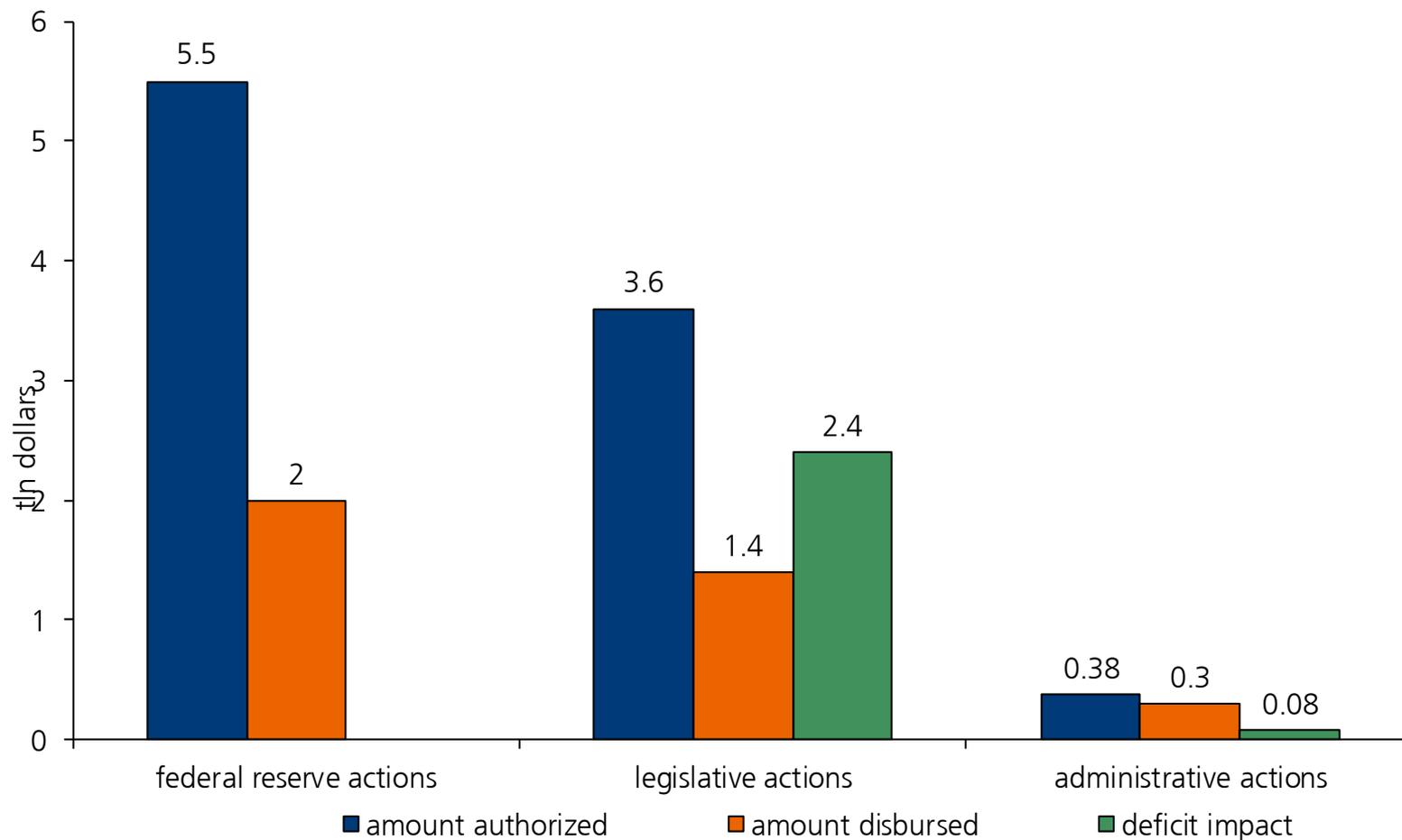
10 mln are receiving «pandemic compensation»



Source: Refinitiv Datastream

The policy response that avoided a Great Depression II

Unprecedented policy response from all sides



Source: Covid money tracker, CRFB. Data in trn dollars

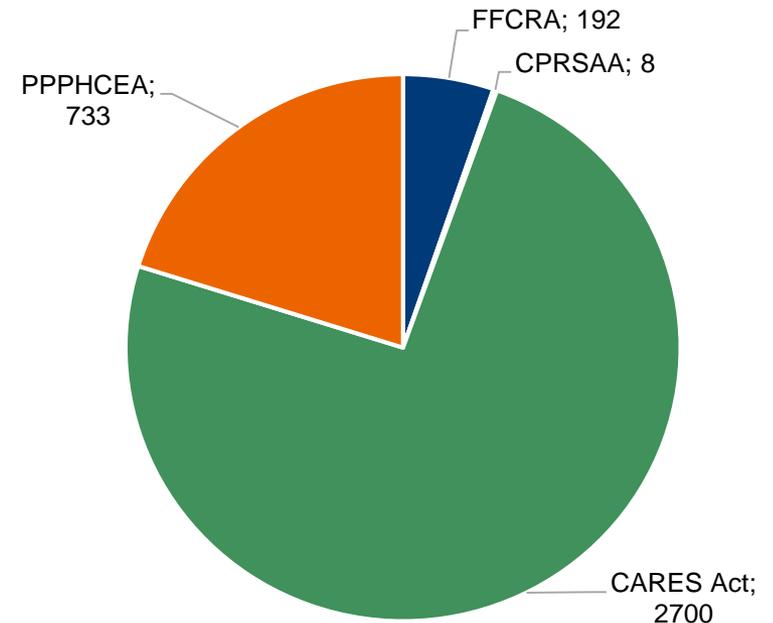
Fiscal policy to the rescue, more to come

Unprecedented policy response

Legislative actions, so far			
Response	Allowed	Disbursed/ committed	Deficit impact
Legislative Actions	\$3.6 trillion	\$1.7 trillion	\$2.4 trillion
Coronavirus Preparedness & Response Supplemental Appropriations Act	\$8 billion	~\$3 billion	\$8 billion
Families First Coronavirus Response Act	\$192 billion	~\$52 billion	\$192 billion
CARES Act	\$2.7 trillion	\$1.4 trillion	\$1.7 trillion
Paycheck Protection Program and Health Care Enhancement Act	\$733 billion	\$203 billion	\$483 billion

Source: CRFB, data in dollars

Legislative action >3.6 tln



Source: CRFB. For details see table 2 below. Data in Bn dollars. CPRSAA: Coronavirus preparedness & response supplemental appropriations Act; FFCRA: Families first coronavirus response Act; CARES Act: Coronavirus, aid, and economic security Act; PPPHCEA: Paycheck protection program and health care enhancement Act.

Federal deficits likely to hit war-era levels

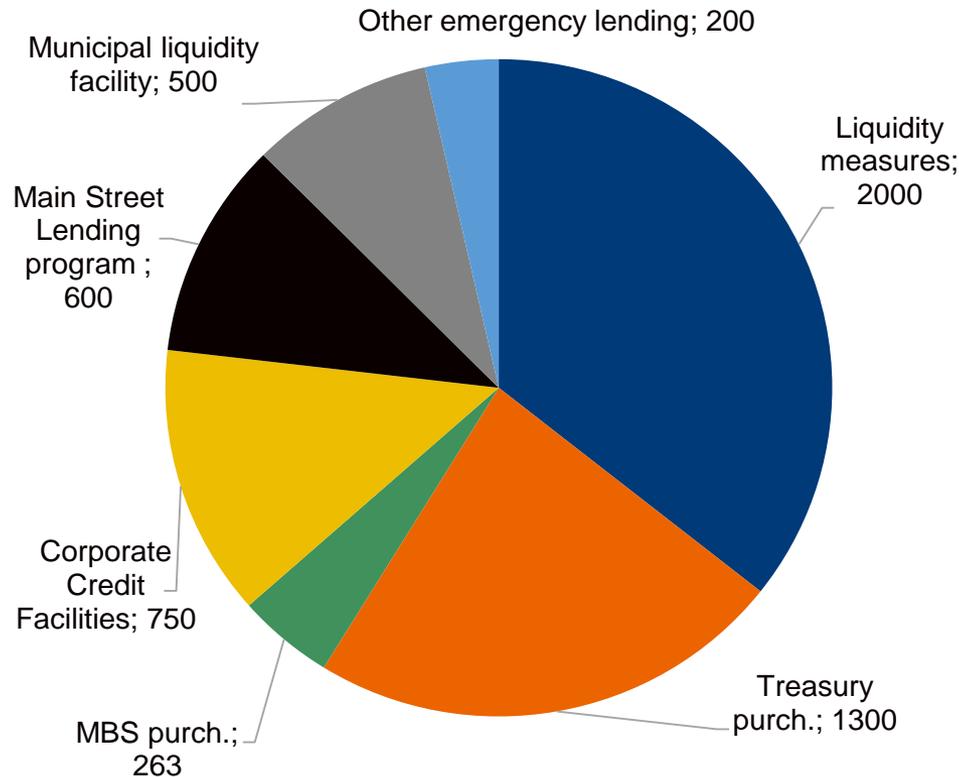
Federal deficits are projected to be **close to 18% of GDP in 2020, under current legislation**. A phase 4 fiscal package cannot be avoided, likely worth at least 2 tn dollars => deficit/GDP around 20%. Under current legislation, **debt/GDP is projected to hit 100% in 2020** and keep rising, hitting **107% by 2025**.

Federal deficits to reach record levels				
	2020	2021	2022-25	2020-25
Pre-crisis deficit (CBO)	1073	1002	4679	6754
Families First Act (CBO)	134	57	1	192
CARES Act (CRFB)	2066	546	-466	2146
Economic changes (CRFB)	570	469	802	1841
Debt Service(CRFB)	3	26	323	352
Projected deficit (CRFB)	3847	2099	5338	11285
Projected deficit/GDP (CRFB)	18.70%	9.70%	5.60%	8.40%
Debt/GDP (CRFB)	100%	103%		

Source: Committee for a Responsible Federal Budget. Economic changes refer to increases in welfare spending and loss of tax revenues due to cyclical downturn.

The Fed is committed to keep pushing out the boundaries of monetary policy

The Fed's commitment >5.5 tln



Source: CRFB. For details see tab. 5 below. Data in Bn dollars

- **The Fed is committed to deploying all its tools to support the economy.**
- Powell: *"It may well be that the Fed has to do more."* But *"We're not out of ammunition by a long shot (...). There are a number of dimensions where we can move to make policy even more accommodative"*, for example by strengthening bond purchases or switching to a more explicit forward guidance. Also, yield curve control: *"at one level it is a natural complement to calendar-based guidance"* (R. Clarida).
- **Negative rates** are not in the toolbox right now. Powell: *"This is not something we're looking at"*. But **yield curve control** is under consideration.

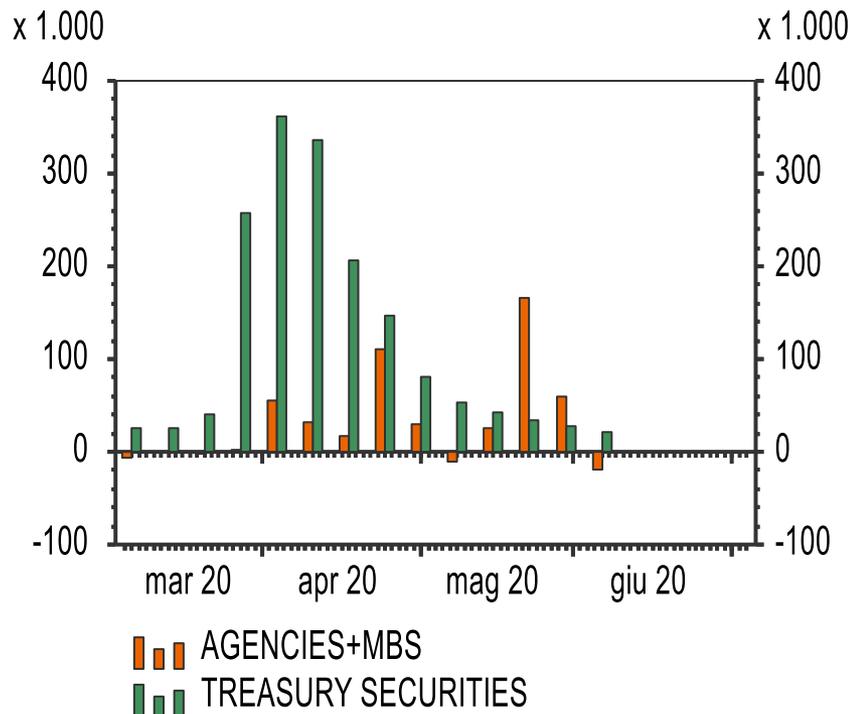
The Fed's balance sheet: +3 tln in 3 months, more to come

Action	Announced	Allowed	Disbursed
Increase long-term Treasury security holdings	March 12-23	\$1.35 trillion**	\$1.32 trillion^
Increase mortgage-backed security holdings	March 12-23	\$503 billion**	\$476 billion^
Subtotal, Asset Purchases		\$1.85 trillion**	\$1.79 trillion^
Increase overnight repo operations	March 9-16	\$500 billion	\$25 billion*
Increase one-month term repo operations	March 11-16	\$500 billion	
Increase three-month term repo operations	March 12-16	\$500 billion***	
Increase central bank dollar swap line arrangements	March 15	N/A	\$449 billion
Establish FIMA Repo Facility	March 31	N/A	\$0 billion
Subtotal, Liquidity Measures		>\$1.95 trillion	\$473 billion
Re-institute Commercial Paper Funding Facility	March 17	N/A	\$12 billion
Re-institute Primary Dealer Credit Facility	March 17	N/A	\$7 billion
Re-institute Money Market Mutual Fund Liquidity Facility	March 18	N/A	\$34 billion
Re-institute Term Asset-Backed Securities Loan Facility	March 23	\$100 billion	\$0
Establish Primary & Secondary Mkt Corp. Credit Facilities#	March 23	\$750 billion	\$30 billion
Establish Paycheck Protection Program Loan Facility	apr-06	N/A	\$47 billion
Establish Main Street Business Lending Program	apr-09	\$600 billion	\$0
Establish Municipal Liquidity Facility	apr-09	\$500 billion	\$0
Subtotal, Emergency Lending		>\$2.05 trillion	\$130 billion
Total		>\$5.8 trillion	\$2.4 trillion

Source: CRFB. Note: *Amount disbursed represents current increase since February 26. Peak increase was \$239 billion in mid-March. ^Represents increase in holdings since February 26. **Represents amount disbursed plus the amount scheduled to be purchased through the following week, currently \$31 billion for Treasuries and \$27 billion for mortgage-backed securities. #Supported by CARES Act funding. \$75 billion is for the corporate credit facilities, \$75 billion is for Main Street lending program, and \$35 billion is for Municipal Liquidity Facility. ***As of May 14, three-month repos are no longer being offered.

More in the pipeline from emergency lending

Asset purchases now tapering and leaving the stage to the new credit facilities



Source: Refinitiv Datastream

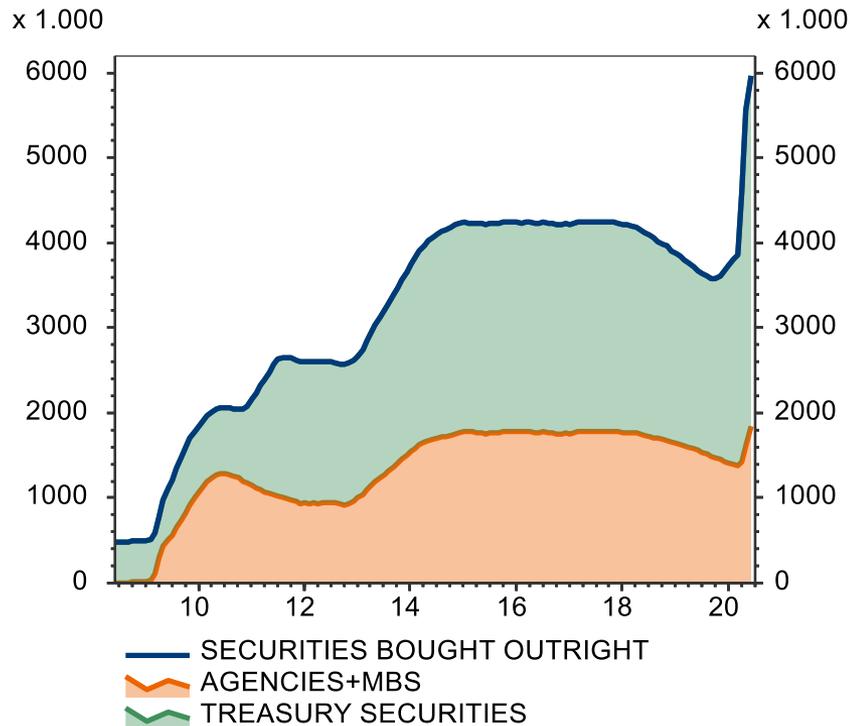
The Fed's assets on their way to around 10 tln

	May-27	chg 1 wk	chg 4 Mar
Sec. held outright	5,946,969	-7,549	2,070,153
US Treasury	4,109,512	20,181	1,606,888
MBS	1,835,110	-27,731	463,264
Repo	181,101	23,750	-13,899
Loans	106,896	-1,681	106,896
Discount window	18,198	-1,337	18,198
PDCF	6,241	-1,260	6,241
MMFLF	33,244	-3,205	33,244
PPP	49,211	4,121	49,211
Net portfolio Comm. Paper F.F.	12794	8,501	12,794
Net Portfolio Corp. Credit Facilities LLC	34853	33,052	34,853
Net portfolio Munic. Liquidity Facility LLC	0	0	0
Swap lines	448,946	2,843	448,946
Other	449,144	34,145	231,673
Total assets	7,145,850	60,009	2,856,563

Source: Federal Reserve Board, table H.4.1, data in mln dollars as of 28 May 2020.

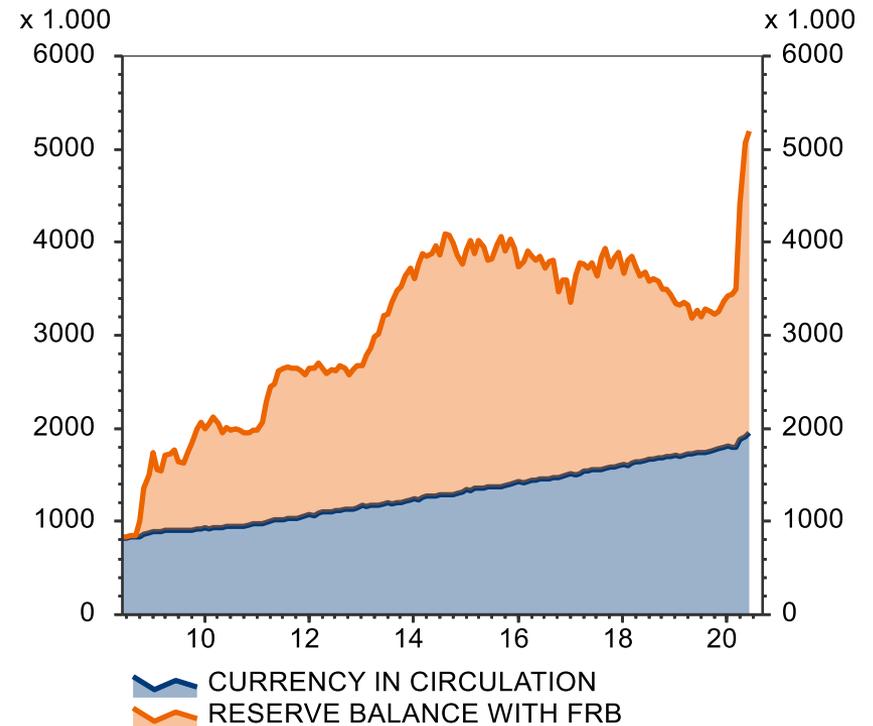
The Fed is getting ready to support a federal deficit flying towards 20% of GDP

The Fed's portfolio of securities reaching new highs



Source: Refinitiv-Datastream

Reserves skyrocketing to help finance the Treasury's fiscal measures



Source: Refinitiv-Datastream

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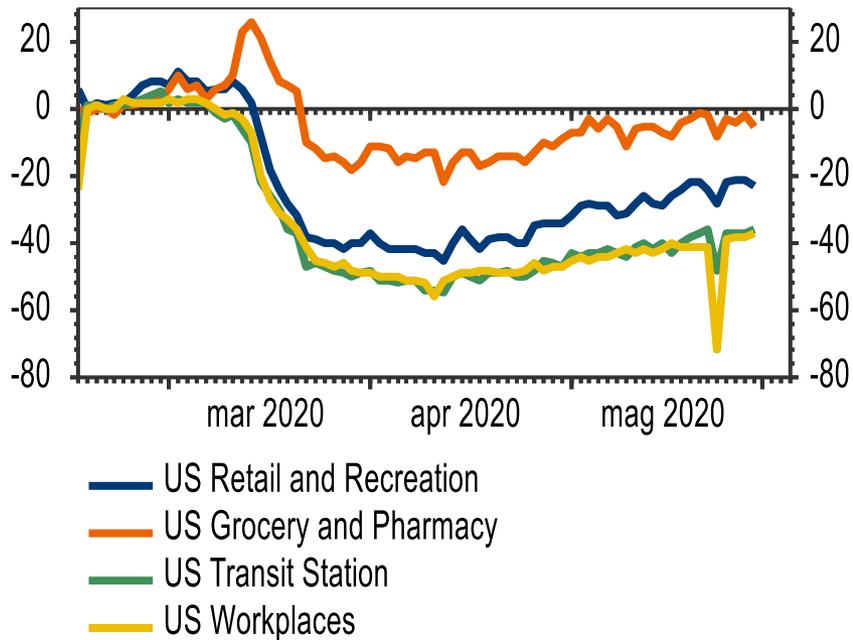
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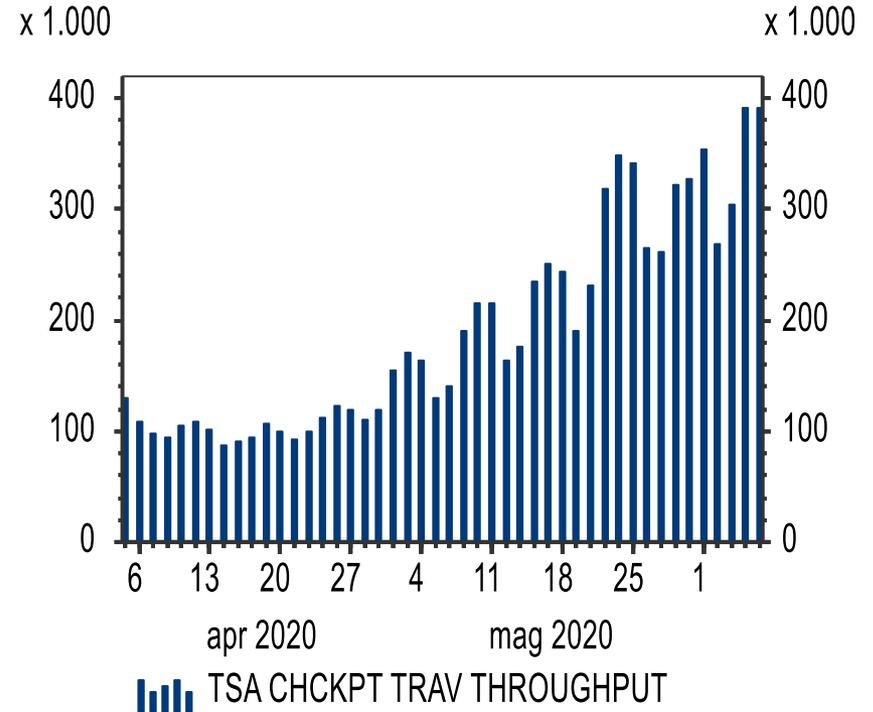
The lockdown is over: now what?

The post-lockdown improvement was temporarily offset by the recent social unrest



Source: Google

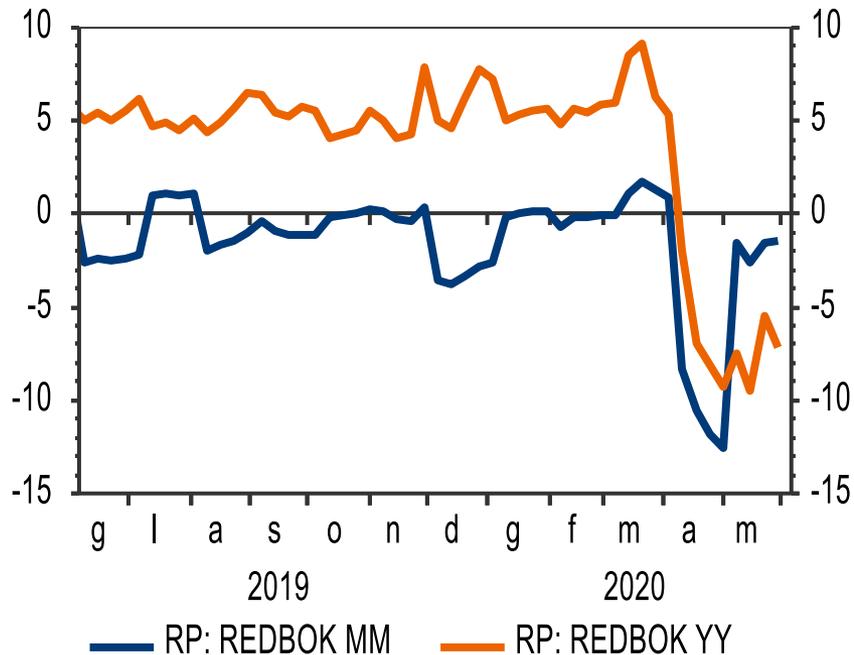
Flying is up from the early April lows



Source: Transit Security Authority throughput.

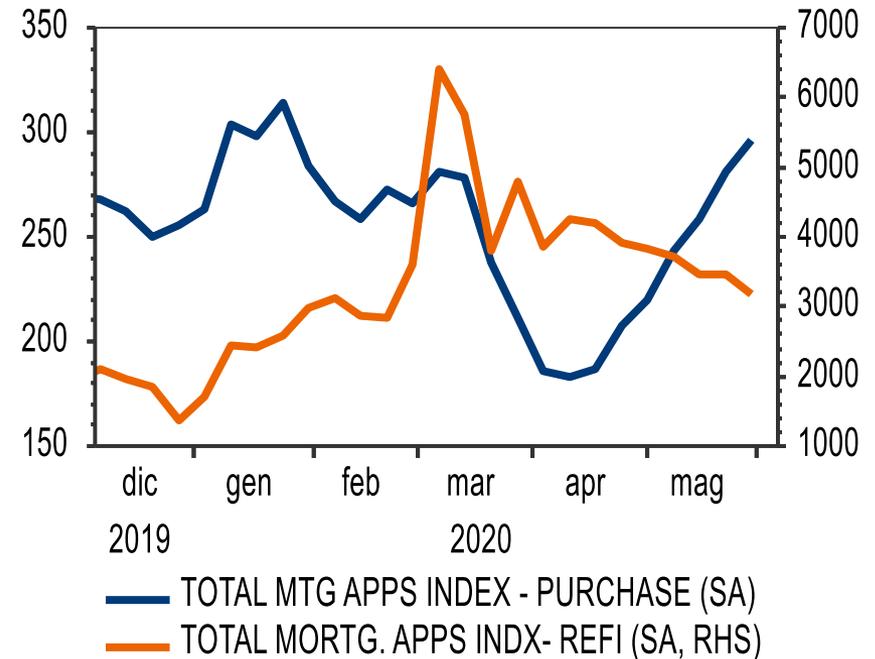
Consumption set to rebound in Q3: households have a big war-chest to draw from (saving rate at 33%)

Weekly sales are up, even in the midst of the recent demonstrations



Source: Refinitiv Datastream

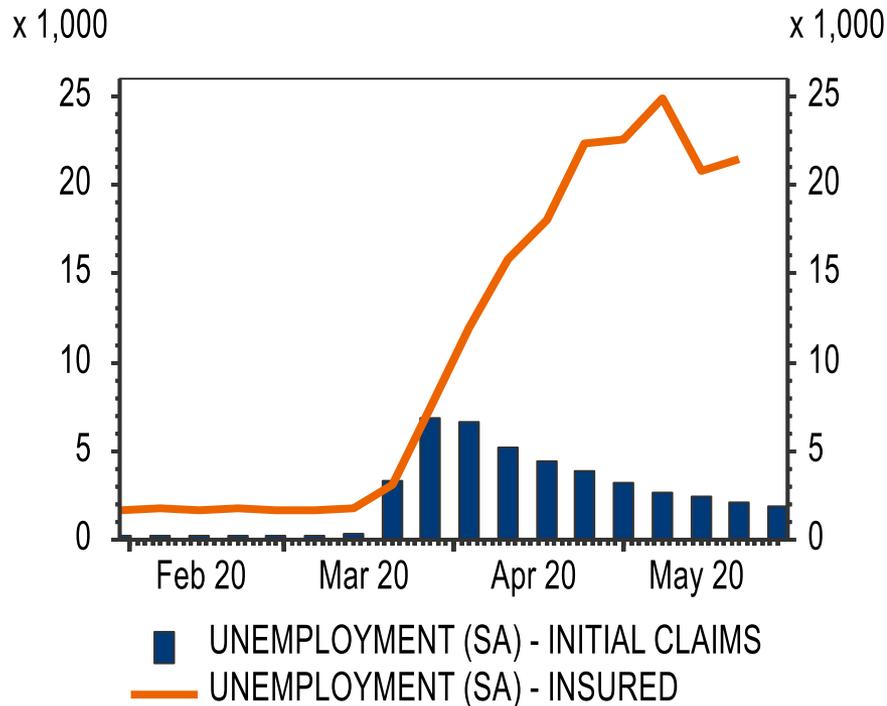
Mortgage applications for purchase of a home are back to pre-pandemic levels



Source: Refinitiv Datastream

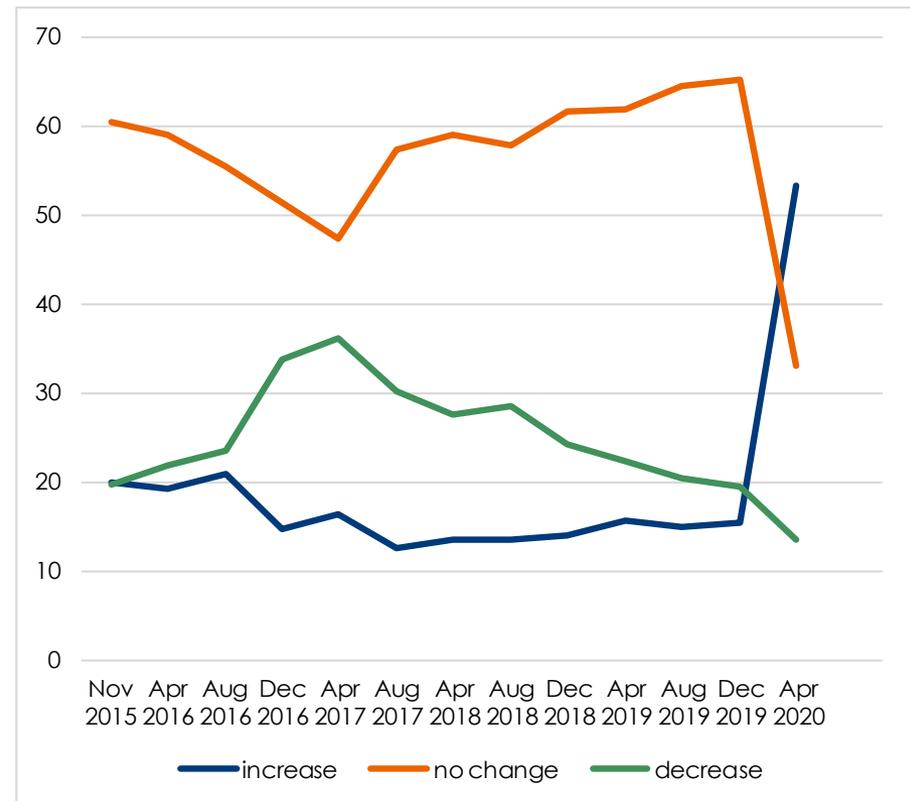
Even in the face of massive job losses, households have an unprecedented safety net

Continuing subsidies carry a significant increase in income for most unemployed...



Source: Refinitiv Datastream

...that may be ending soon, even though households expect it to be extended



Source: NY Fed, survey of consumers expectations, public policy survey.

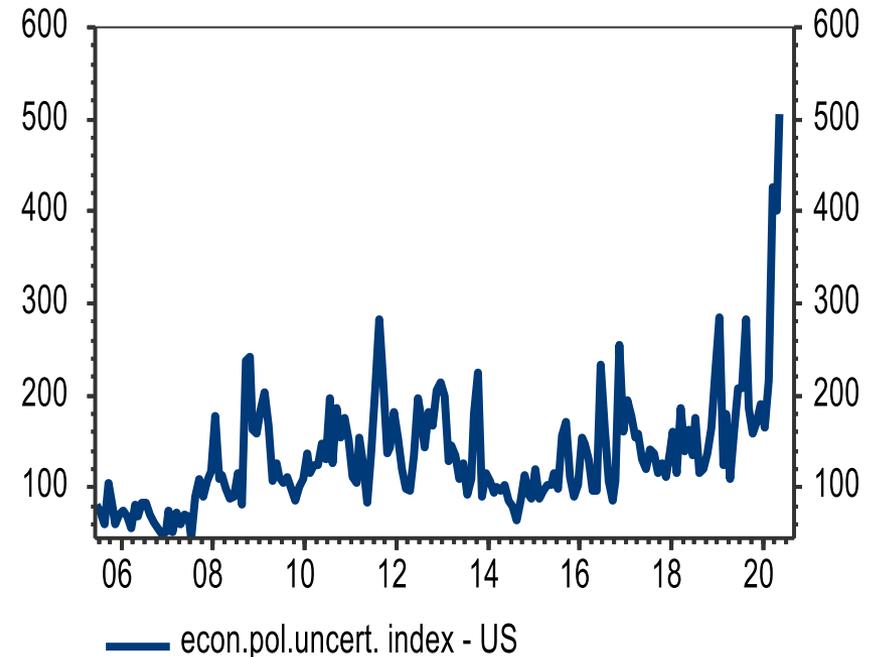
On the firms' side, the slide is over, but the future is uncertain, many sectors will need deep restructuring

So far, activity is mainly stabilizing, and picking up in selected industries...



Source: Refinitiv Datastream

...while the level of uncertainty has yet to reach a peak



Source: Refinitiv Datastream

Conclusions: the worst is over, but the economy is in uncharted waters

Macroeconomic forecasts

	2019	2020e	2021e
GDP (constant prices, y/y)	2.3	-4.7	3.5
Private consumption	2.6	-5.3	4.8
Fixed investment - nonresid.	2.1	-11.2	-0.1
Fixed investment – residential	-1.5	3.3	1.7
Government consumption	2.3	2.2	1.1
Export	0.0	-4.7	3.9
Import	1.0	-7.3	4.2
Stockbuilding (% of GDP)	0.1	-0.6	0.2
Current account (% of GDP)	-2.3	-2.3	-2.6
Gen. Gov. Deficit (% of GDP)	-7.2	-15.7	-9.4
Gen. Gov. Debt (% of GDP)	135.3	159.9	152.4
CPI (y/y)	1.8	1.2	2.2
Industrial production	0.9	-10.4	12.2
Unemployment (%)	3.7	9.9	7.4

Source: Refinitiv Datastream, forecasts Intesa Sanpaolo

- **GDP is expected to rebound as of Q3, but the strength of the recovery is highly uncertain**, with downside risks. The epidemiological outlook could worsen, but there could also be positive outcomes (e.g., a vaccine in 2021).
- **Congress will have to introduce another spending bill** in the coming months, leading to further deterioration of the federal budget, but also safeguarding against a new Great Depression.
- **The election outcome is more uncertain than ever**, but at the moment at least another two years of **divided government** remain the central scenario.

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Report prepared by:

Giovanna Mossetti, *Macroeconomic Analysis, Intesa Sanpaolo*