

ECONOMIC OUTLOOK

A fragile recovery with elections rapidly approaching

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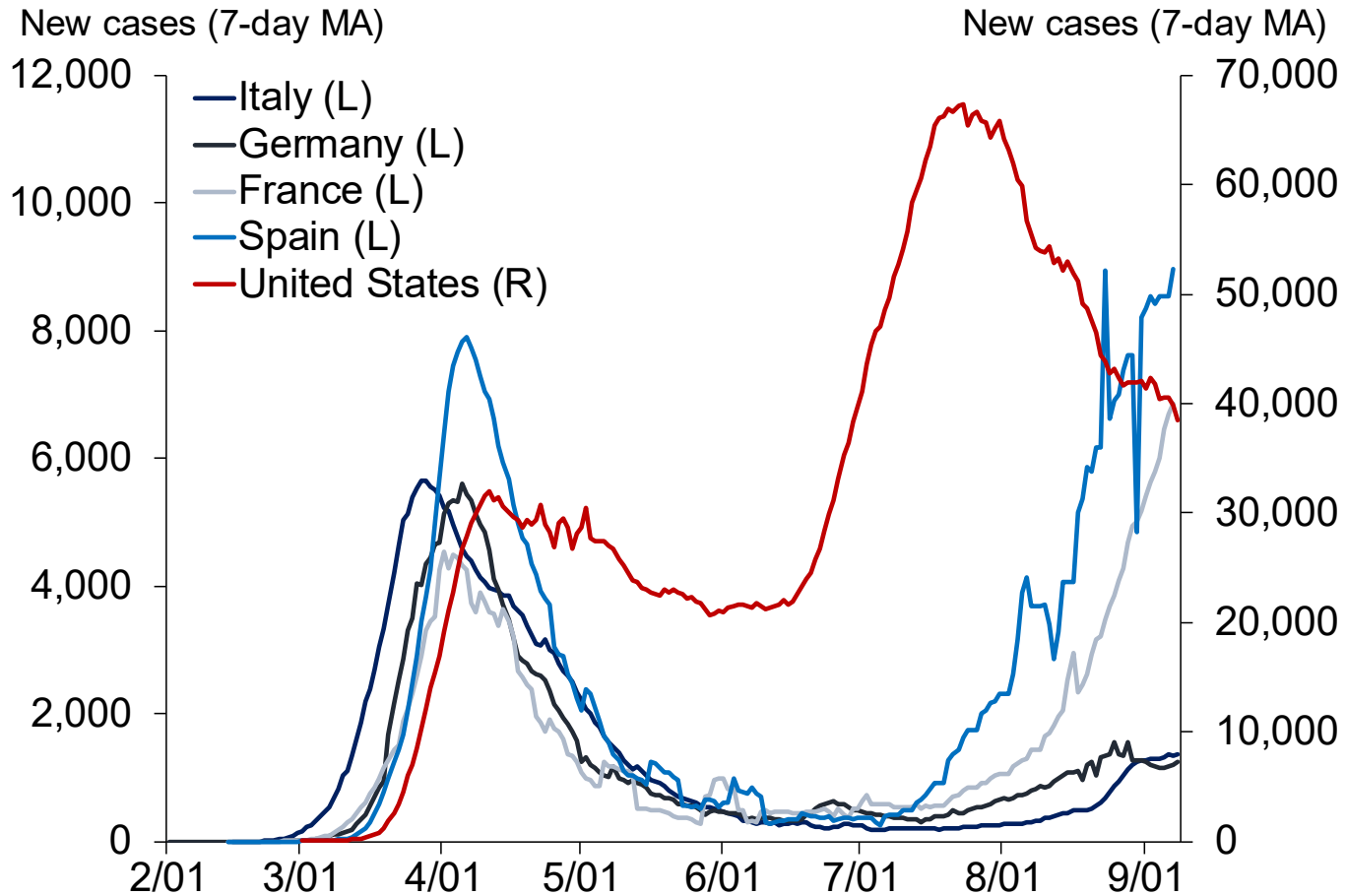
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US cases continue to decline while European cases rise

US: Virus spread has slowed at very high levels

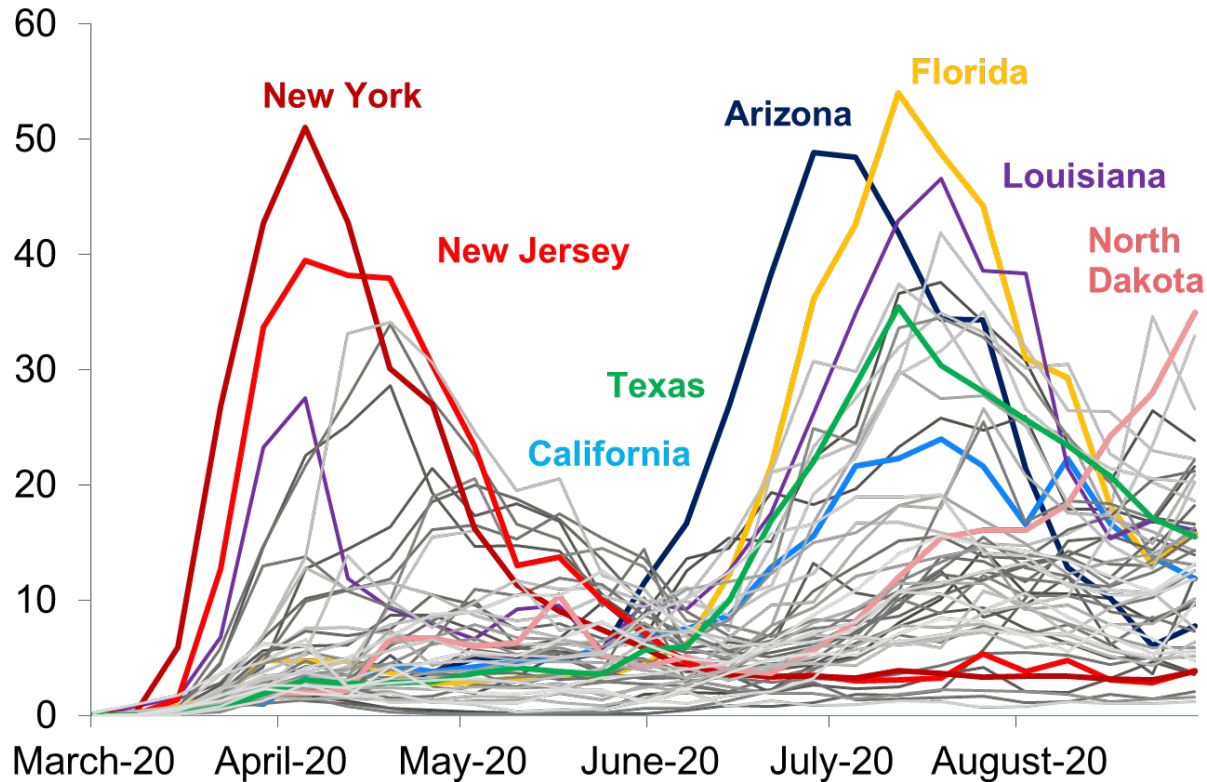


Source: Oxford Economics/Our World in Data

But the health situation is less than ideal

US: New cases of Covid-19

7-day MA of cases per 100,000



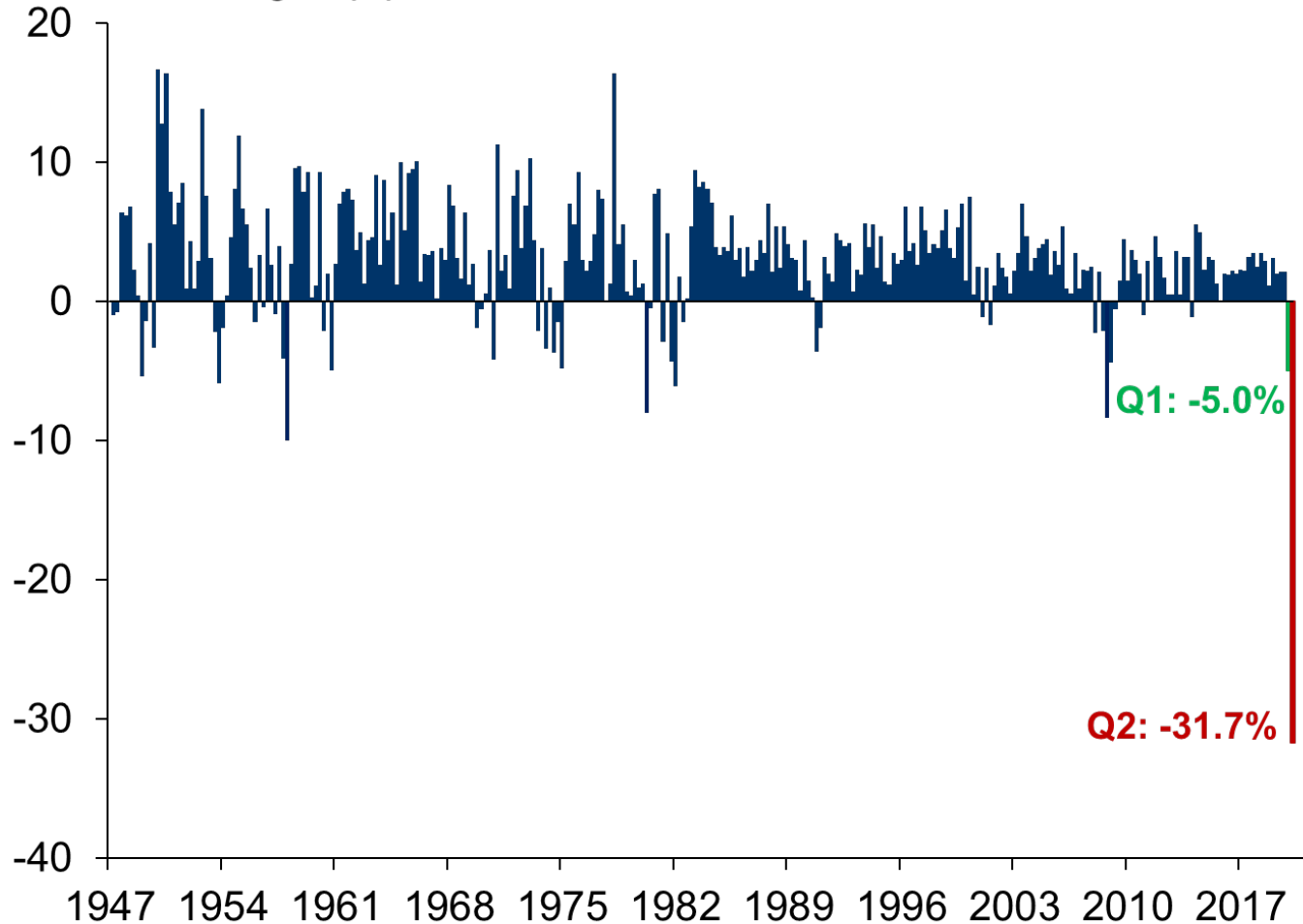
Source: Oxford Economics/Haver Analytics

An unprecedented shock

Economy hit with unprecedented force and speed

US: The worst quarterly decline in GDP

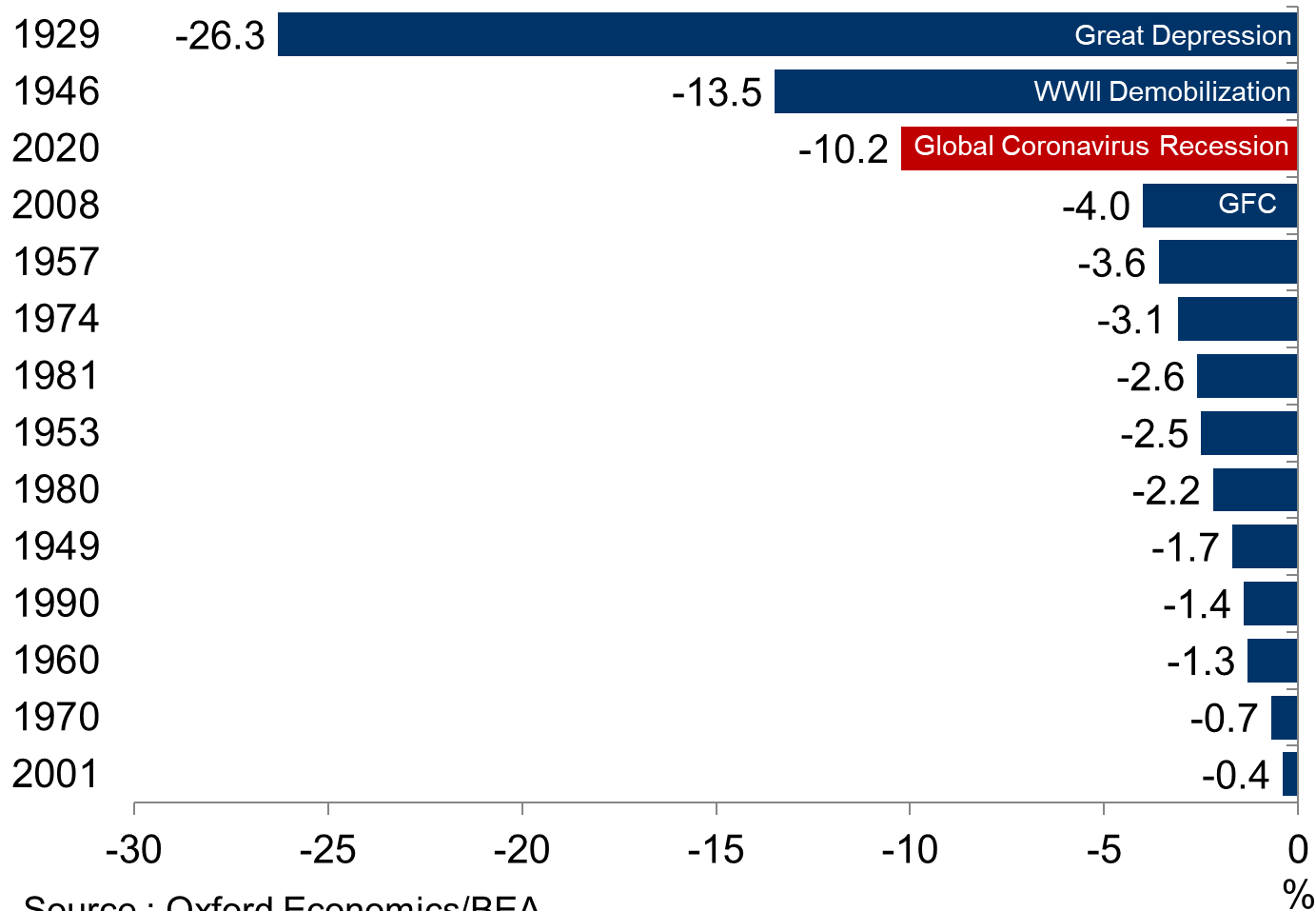
Percent change, q/q annualized



Source : Oxford Economics/Haver Analytics

A historical output contraction in 2020

US: Cumulative GDP decline during recessions



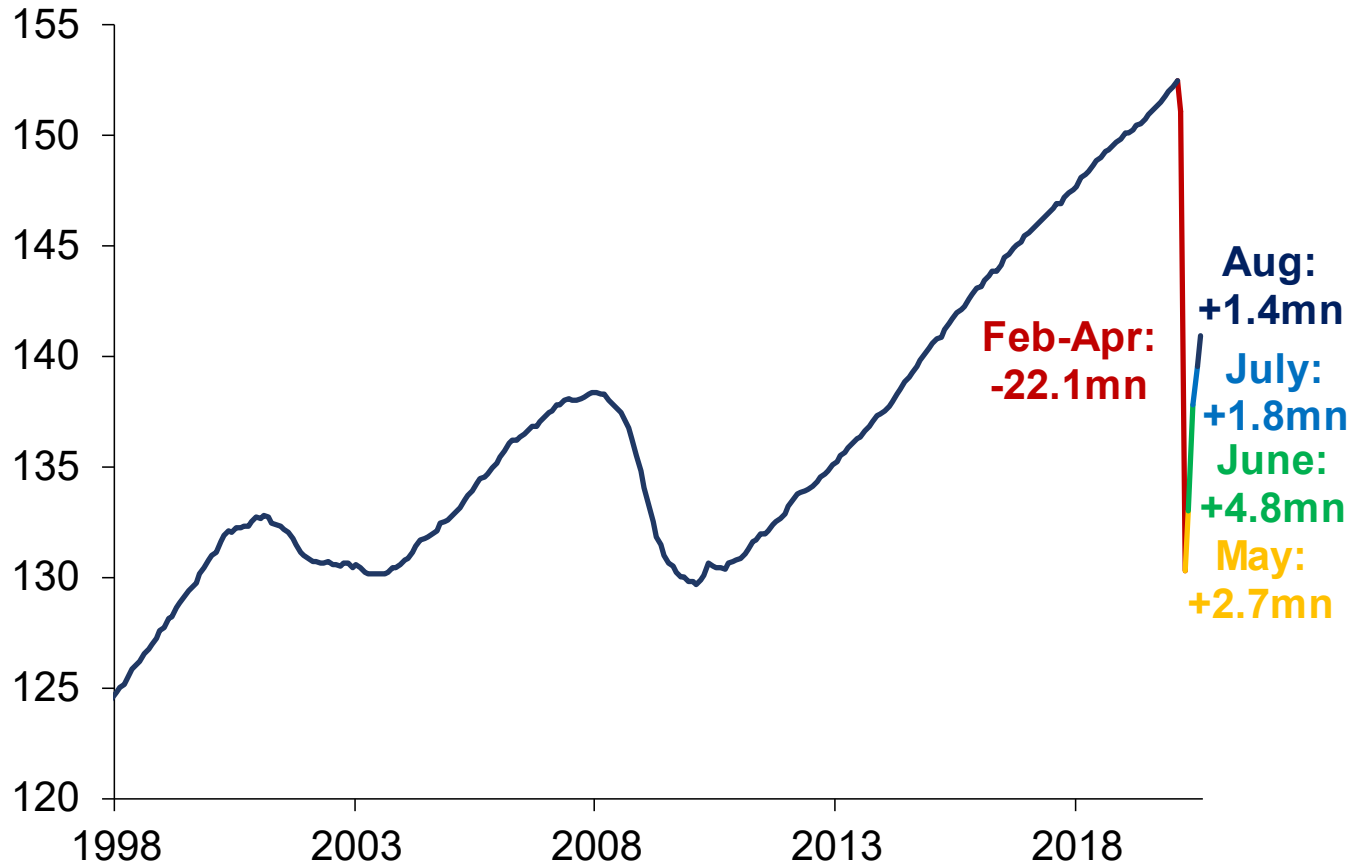
Source : Oxford Economics/BEA

A partial labor market rebound

Solid 1.4 million jobs added in August, but slowest gains so far

US: Nonfarm payroll employment

Millions

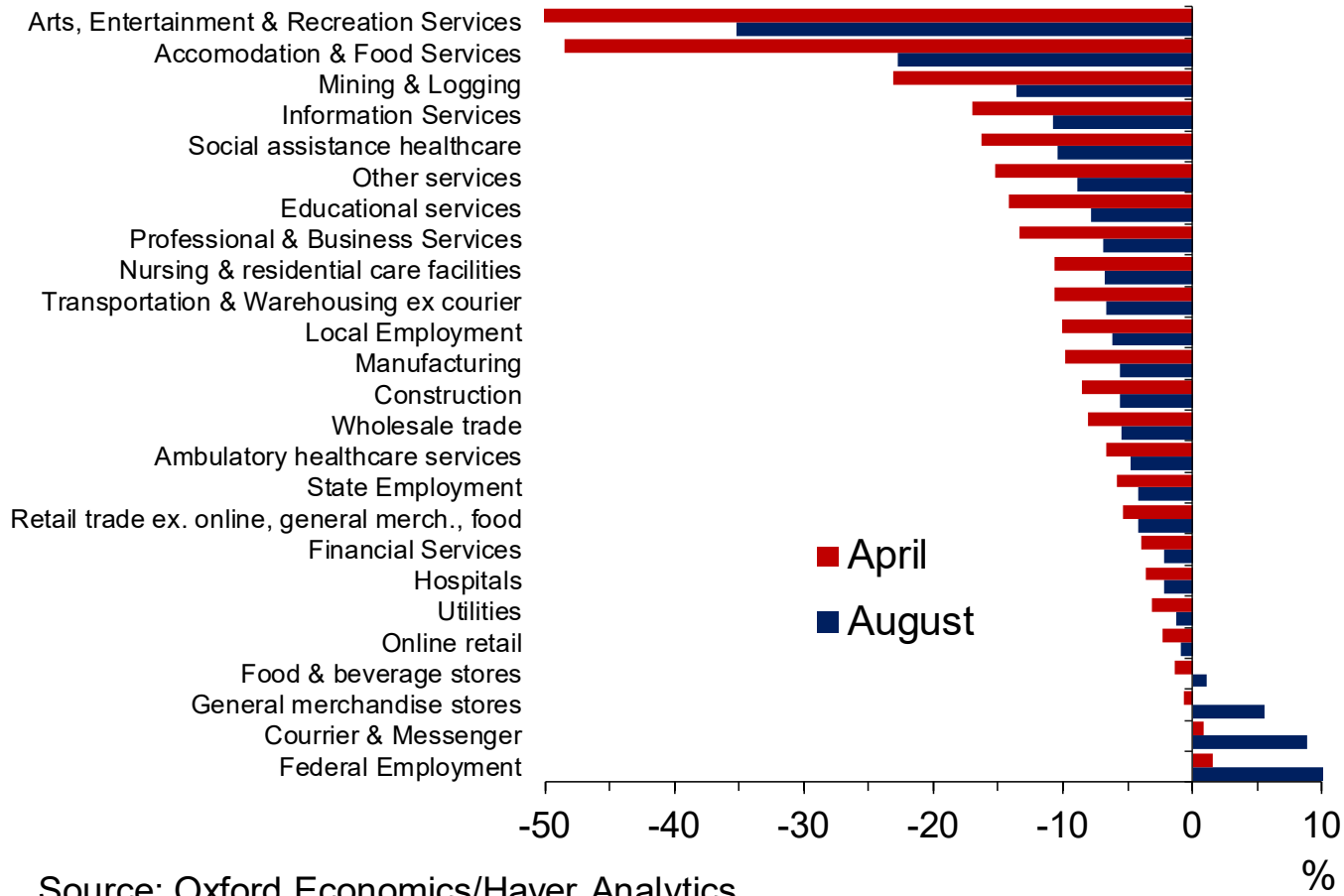


Source: Oxford Economics/Haver Analytics

And the recovery across sectors is only partial

US: Labor market recovery is only partial

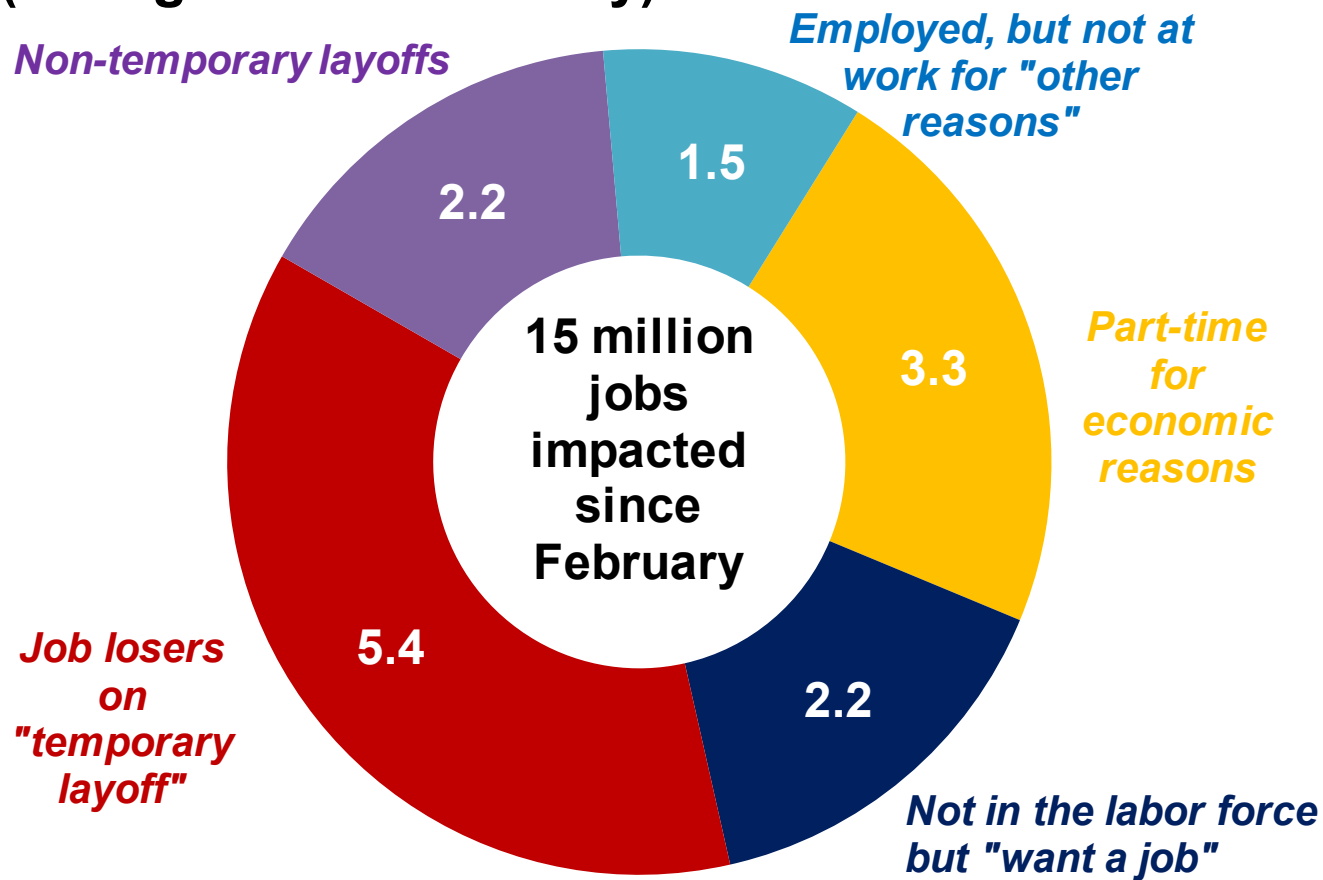
Industry employment as a share of February level



Source: Oxford Economics/Haver Analytics

Labor market devastation remains widespread

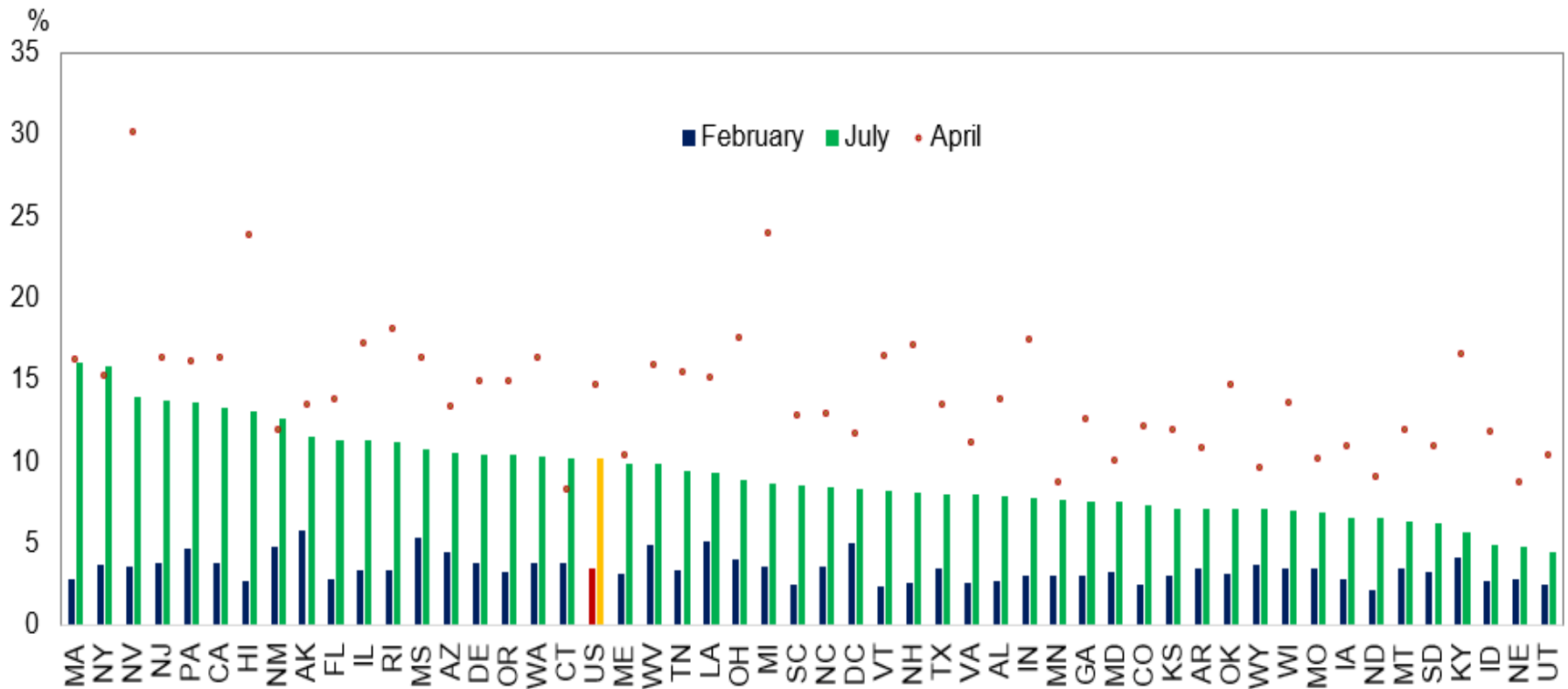
US: COVID-19 impact on the labor market (change since February)



Source: Oxford Economics/Haver Analytics

Some regions have fared better, but all have suffered

US: Unemployment rates

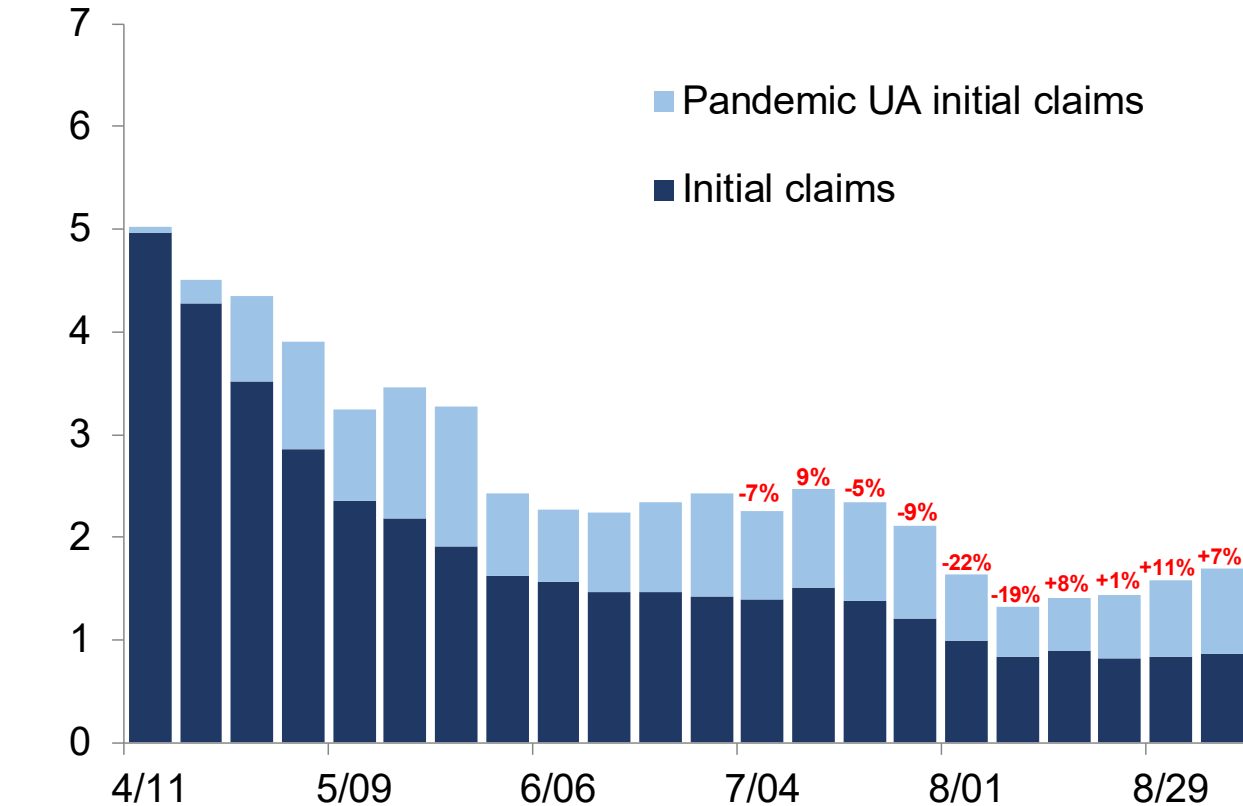


Source: Oxford Economics/Bureau of Labor Statistics

Initial unemployment claims still excessively high and rising

US: Total initial claims for unemployment benefits

Millions, nsa

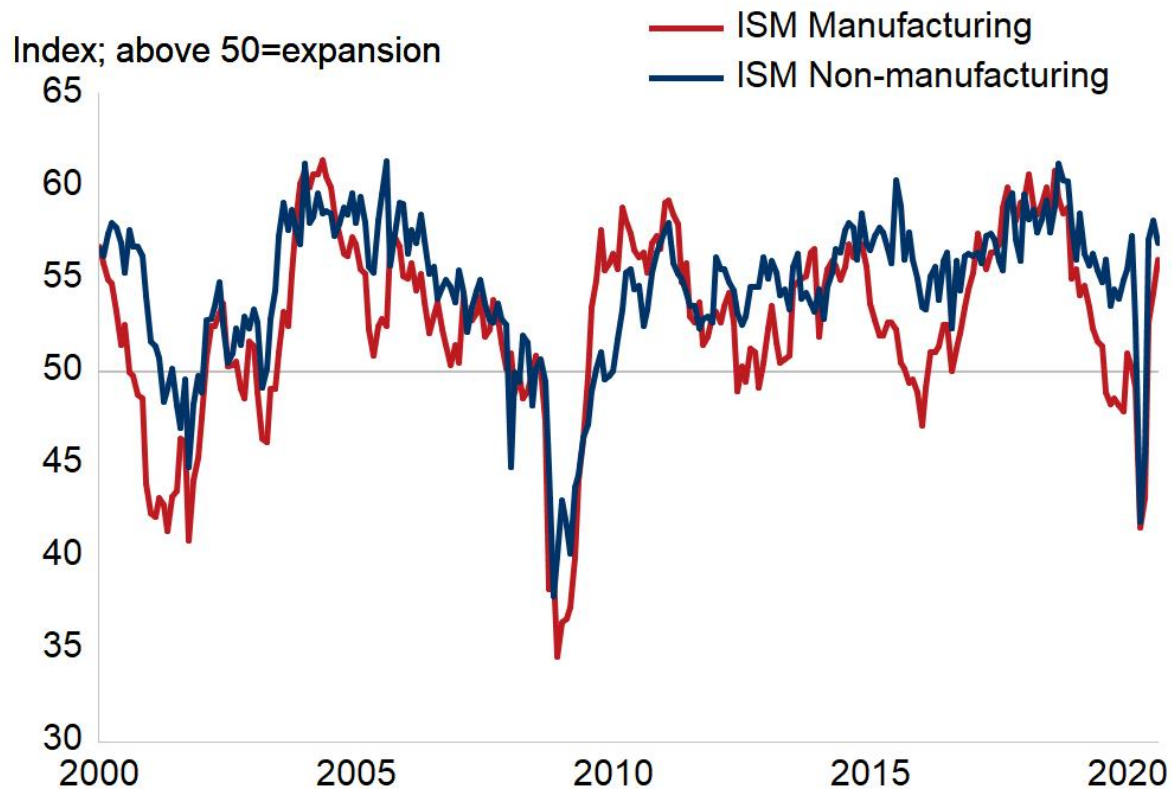


Source : Oxford Economics/Haver Analytics

A rapid initial bounce-back, but

Optimism among purchasing managers

US: PMI Indices

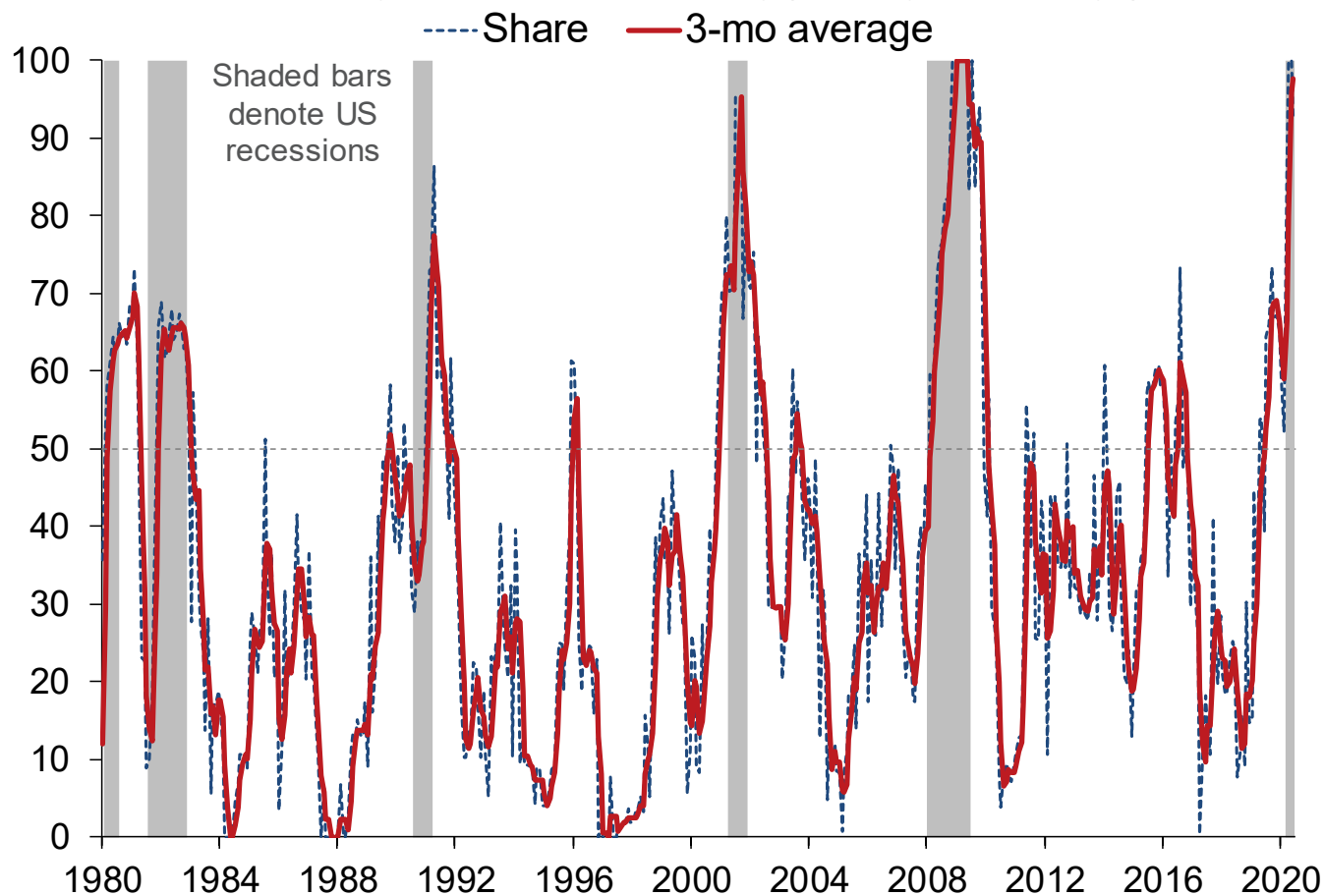


Source: Oxford Economics/Haver Analytics

But weakness across sectors remains broad-based

US: Recessionary manufacturing activity

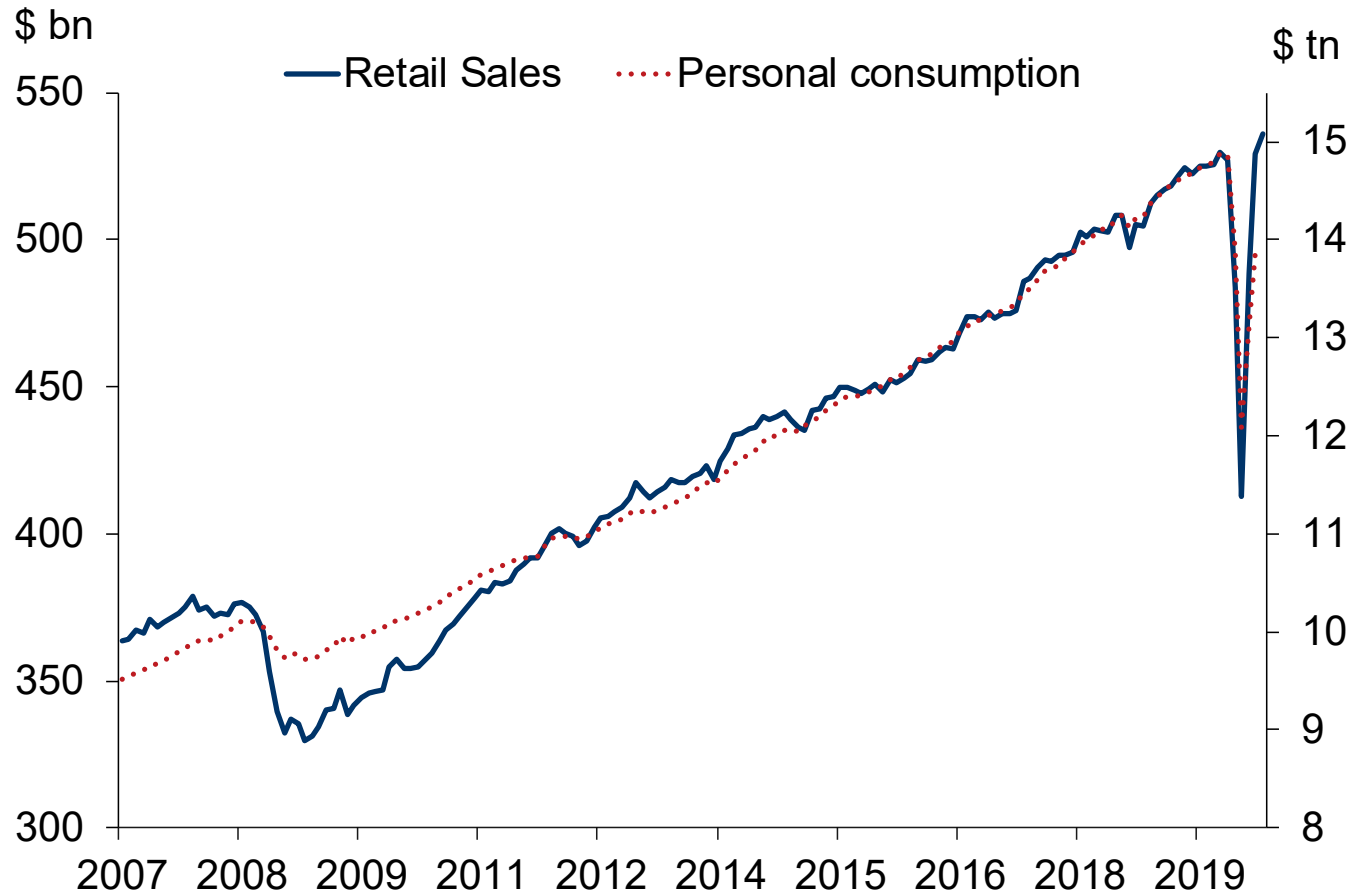
Share of manufacturing sub-sectors contracting (% , weighted average)



Source: Oxford Economics/Haver Analytics

Retail sales are back above their pre-pandemic peak

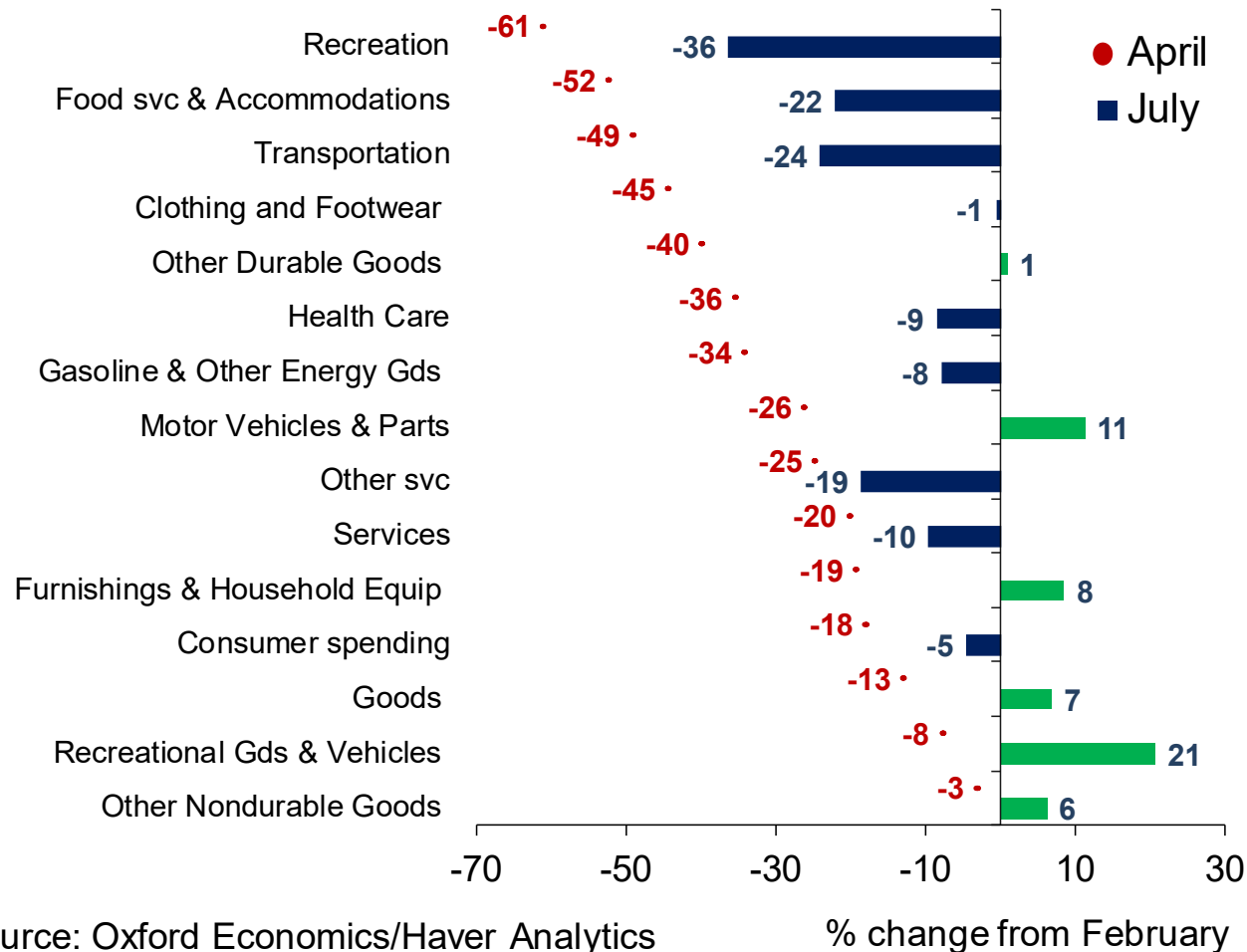
US: Retail sales and consumer spending



Source : Oxford Economics/Haver Analytics

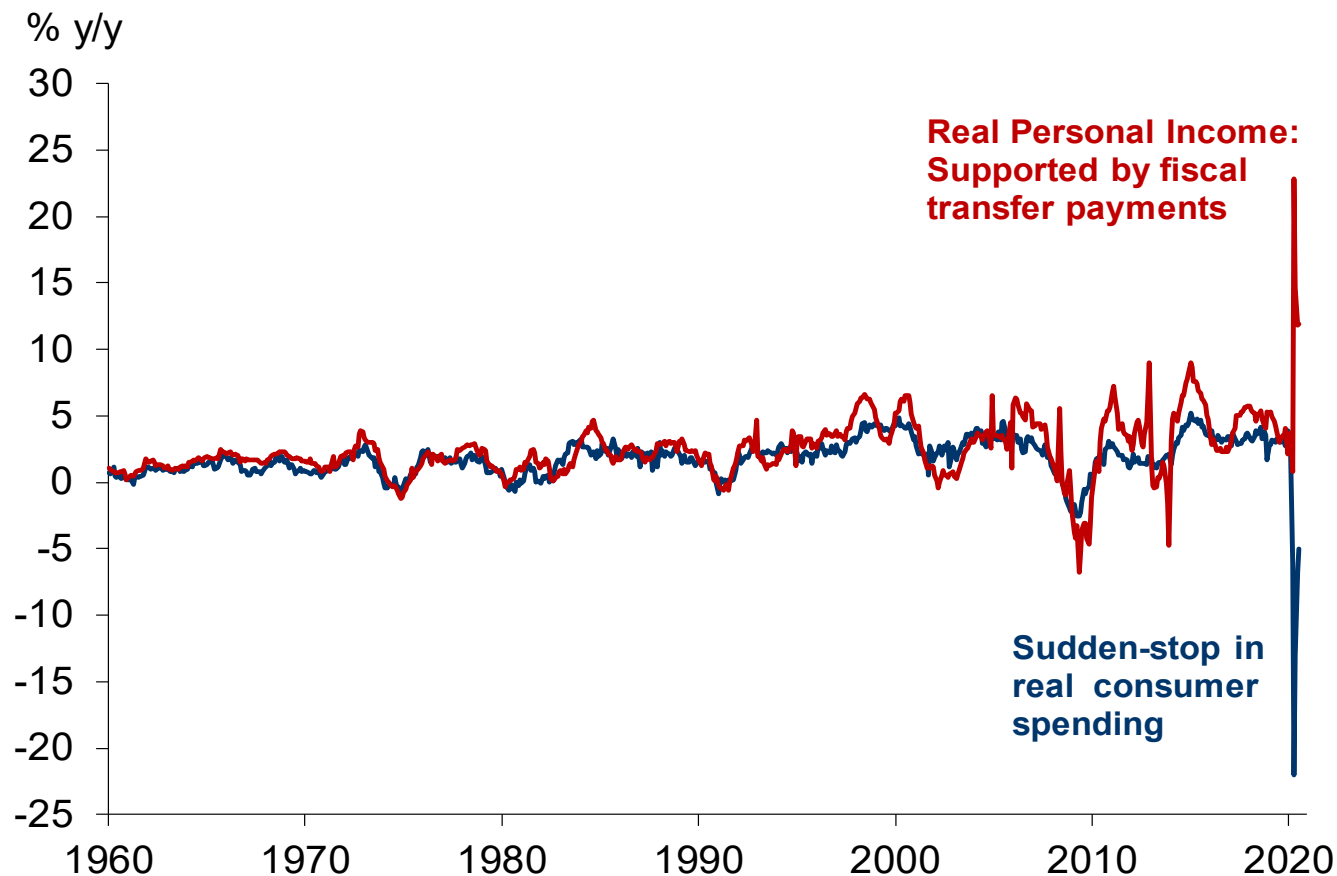
Recreation, accommodation & leisure outlays still depressed

US: Consumer spending recovery is only partial



Personal spending continues slow rebound

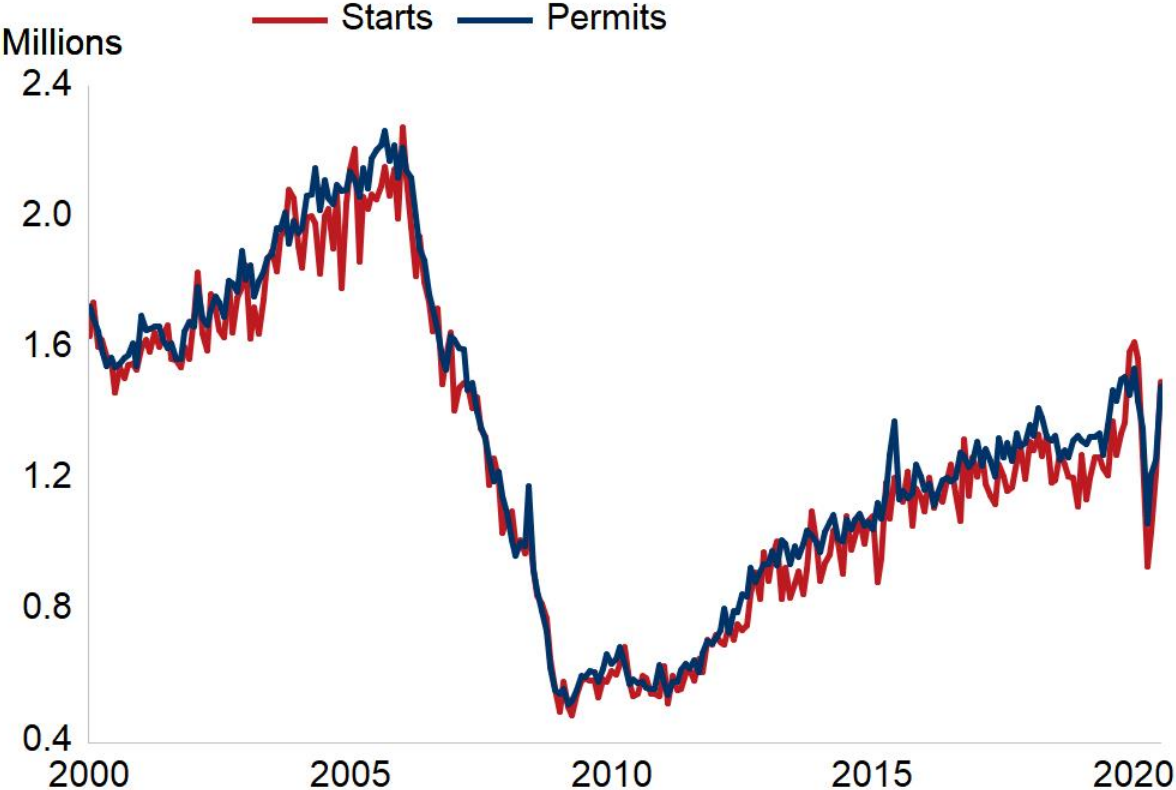
US: Personal income and spending



Source : Oxford Economics/Haver Analytics

Housing activity has suffered a more modest set-back

US: Housing activity



Source: Oxford Economics/Haver Analytics

With record low mortgage rates helping

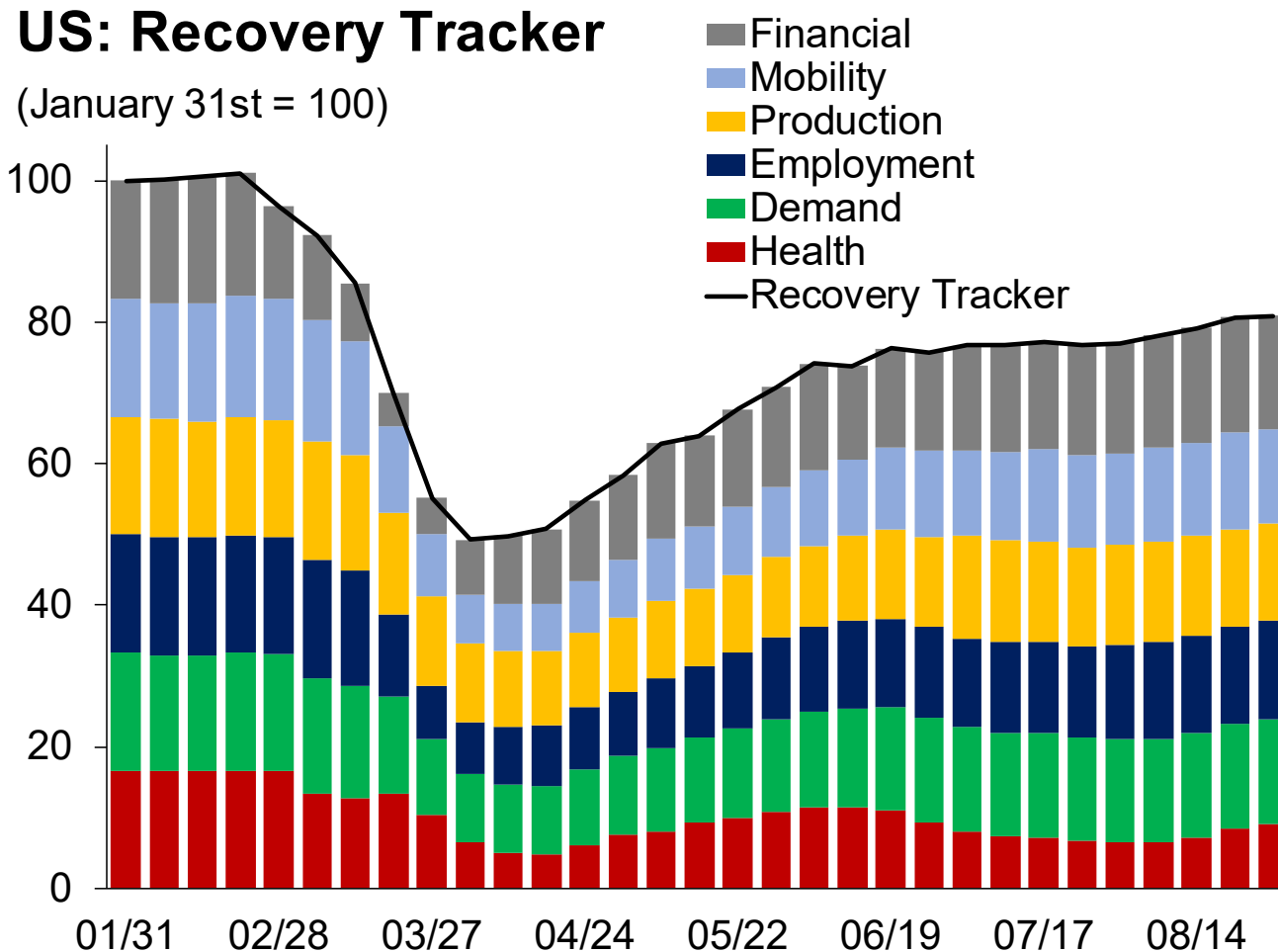
US: Weekly mortgage rates



Source: Oxford Economics/Haver Analytics

Recovery Trackers point to a plateau

US Recovery Tracker picked up momentum in August

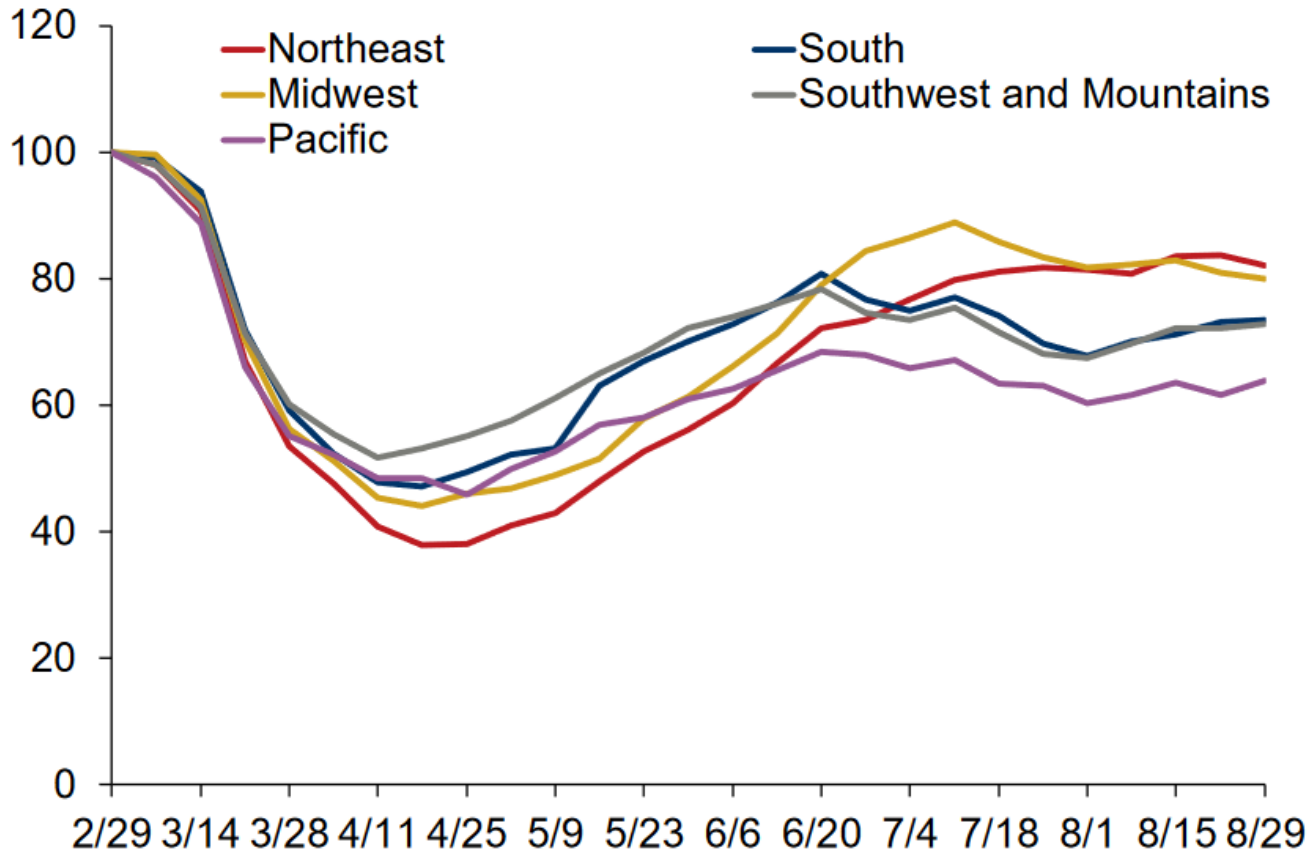


Sources: Oxford Economics

Very little forward momentum across the regions

US: State Recovery Tracker, by region

%; 2/29=100



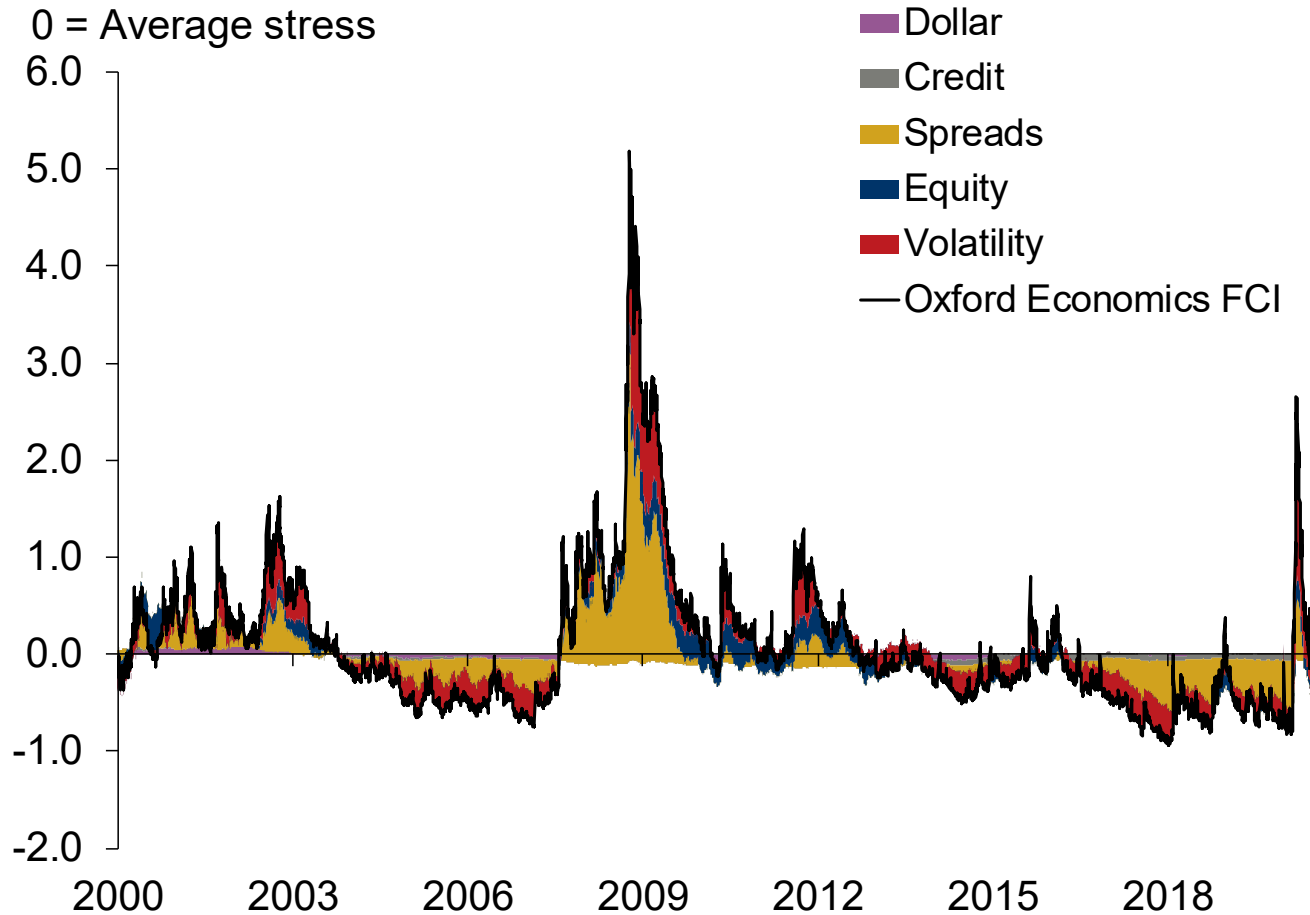
Note: Weighted by states' contribution to regional GDP

Source: Oxford Economics/Haver Analytics

Financial market worries

Financial conditions continue to ease

US: Financial conditions



Source: Oxford Economics/Haver Analytics

Corporate defaults are surging: Chapter 11 reorganizations

Covid-19 triggers a record wave of US corporate bankruptcies

Cumulative count of US companies with \$1bn or more in liabilities filing for Chapter 11 bankruptcy



Data only account for lead case bankruptcy filings, which exclude the filings of major corporate subsidiaries. 2020 to Aug 17

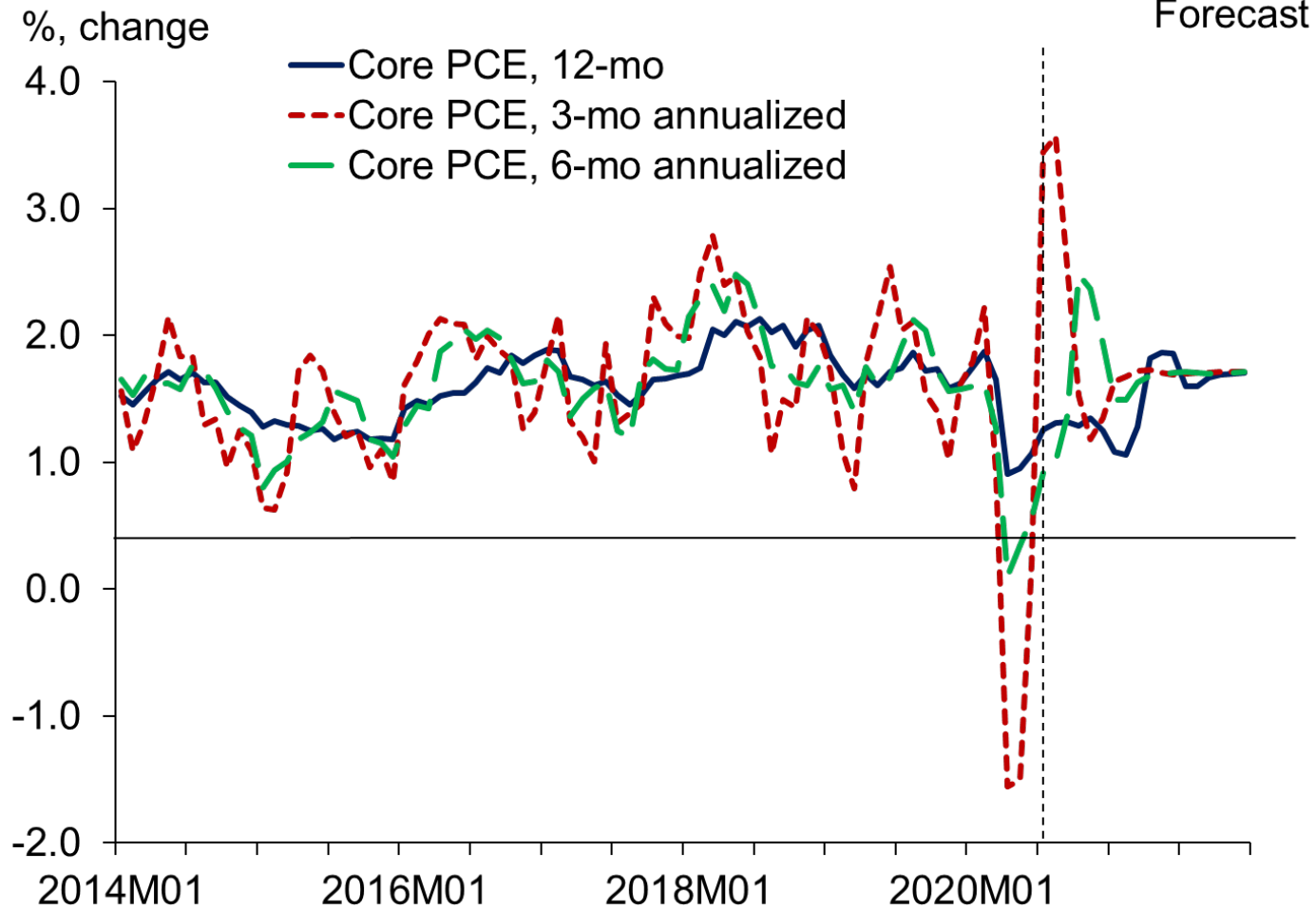
Source: BankruptcyData.com

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Elevated political uncertainty

No inflation risk despite wild swings

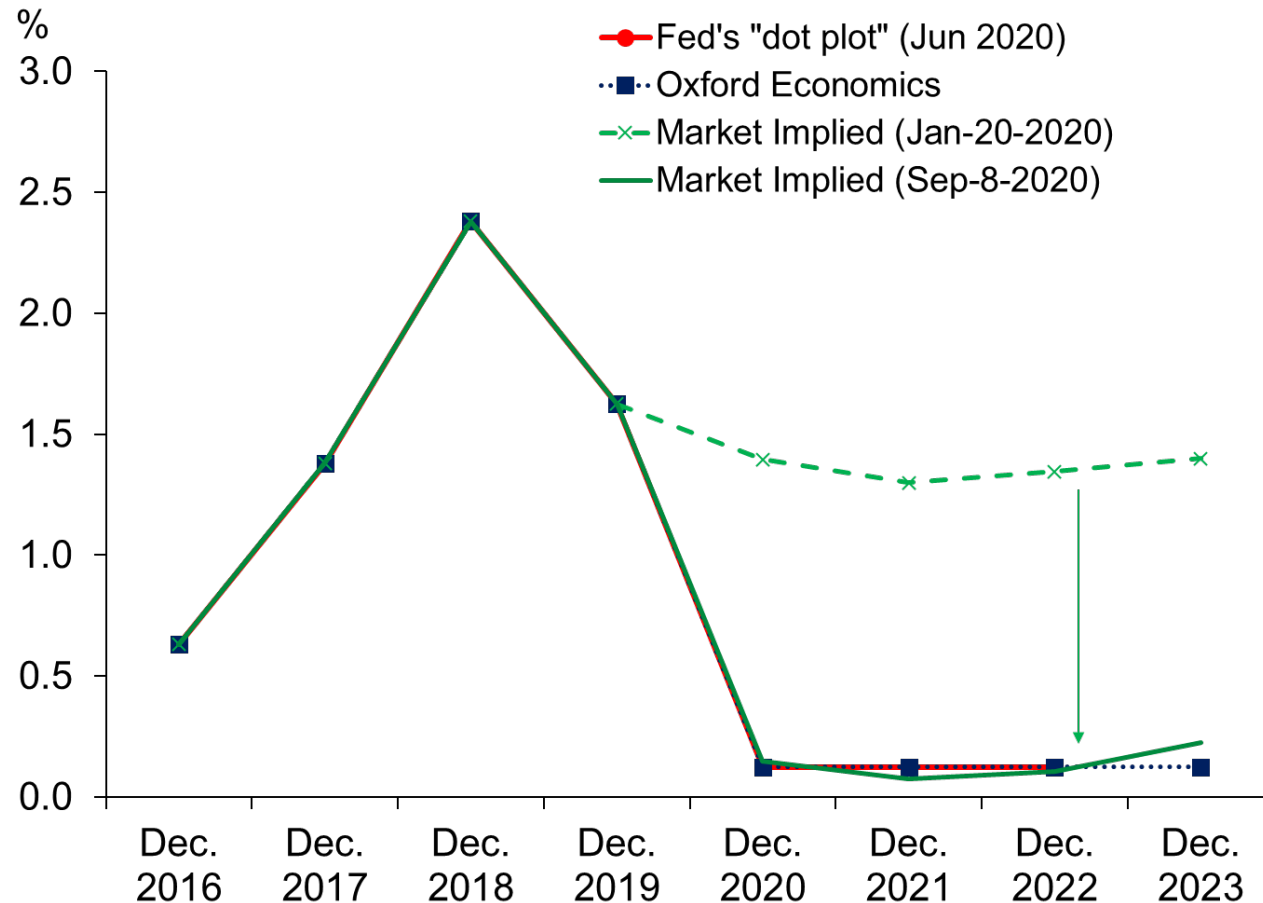
US: Core Inflation



Source: Oxford Economics

Fed adopts average inflation targeting

US: Federal funds rate expectations



Source: CME/Federal Reserve/Oxford Economics

Elections: Biden plan could have positive economic impact

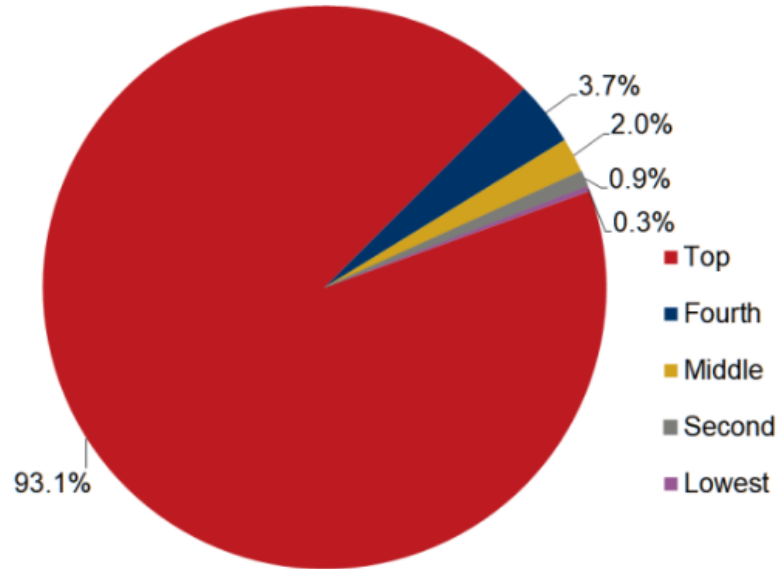
Joe Biden's Major Spending Proposals	
Provision	Estimated cost, blns
Climate and infrastructure	\$2,000
Universal Pre-K, child care, elder care	\$775
Health care	\$750
Higher education	\$750
"Build Back Better" initiative	\$700
Pre-K and K-12	\$600
Other, including funds for opioid crisis	\$500
Social Security	\$450
Housing	\$350
Total	\$6,875

Source: Oxford Economics, www.joebiden.com

Democratic presidential candidate Joe Biden has offered a sweeping policy agenda that would increase non-defense government spending by about \$7 trillion over 10 years and defray part of the cost with \$4 trillion in tax increases.

Elections: Biden plan could have positive economic impact

US: Share of Biden's tax increases by income quintile



Source : Oxford Economics/Tax Policy Center

Many of his spending proposals, including increased outlays for health care, education, and Social Security, would target low- and middle-income households, while his tax increases would be heavily skewed toward upper-income households and corporations.

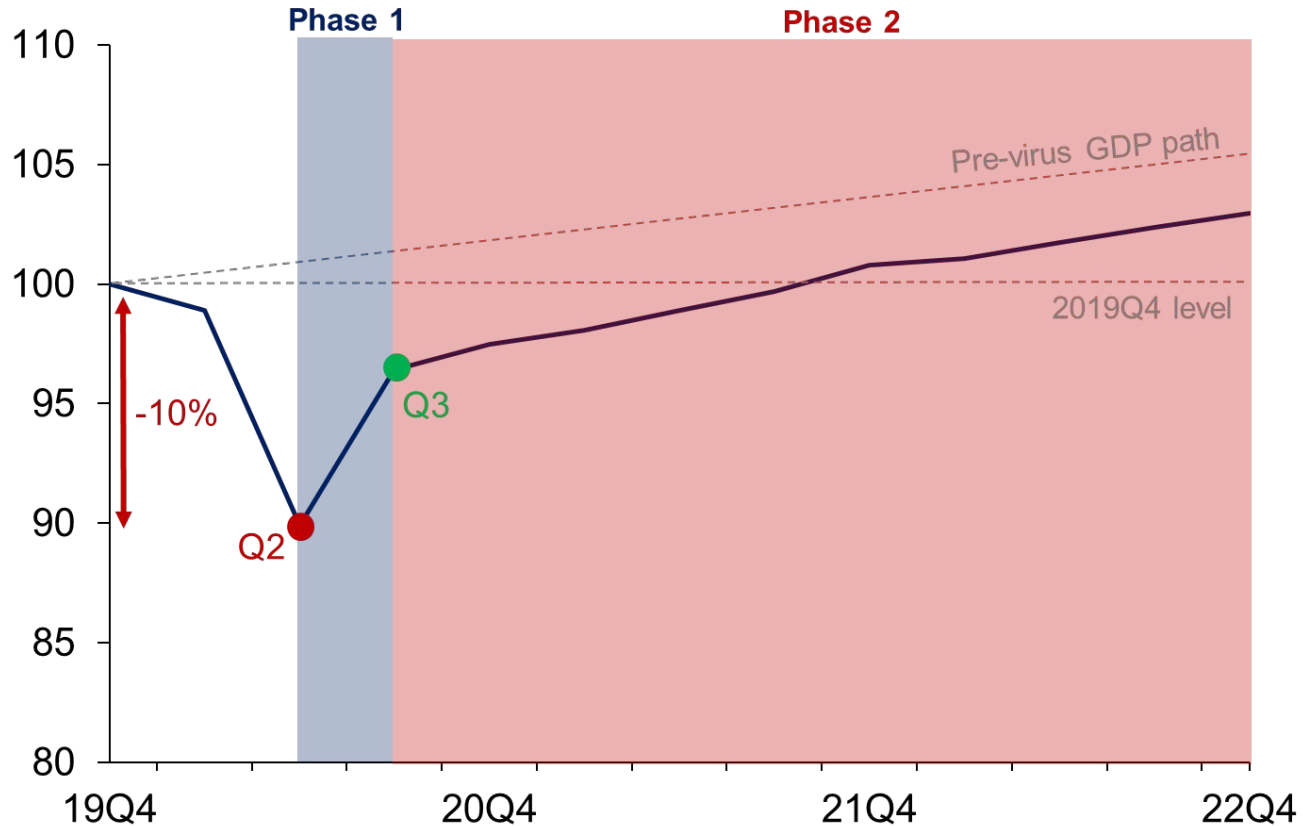
His tax measures would partially reverse the Tax Cuts and Jobs Act, while raising just over half the revenue from higher Social Security taxes and individual income taxes, and the balance from higher corporate domestic and international taxation.

Conclusion

A two-phased recovery

Entering slower & bumpier phase of the recovery

GDP Q4 2019 = 100



Source : Oxford Economics

Downside risks after a strong initial recovery phase

- ❑ **The economic recovery is well underway, but its speed and durability are now in question** with fiscal aid dwindling, flu season fast approaching and election uncertainty rising.
- ❑ **Following a 10.2% peak-to-trough GDP contraction, we believe the economy will have recouped about two thirds of its output loss at the end of Q3.** This should translate into a 3.7% GDP contraction in 2020. However, with a health solution still not available and the economic rebound looking fragile, we believe real GDP will advance only 3.7% in 2021, with risks tilted to the downside, especially in the absence of further fiscal stimulus.
- ❑ **The August jobs report confirmed that the labor market has entered a frustratingly slower second phase of the recovery.** While the unemployment rate registered an impressive 1.8ppt decline to 8.4%, it's on par with past recessions. And worryingly, 60% of the unemployed have been in that situation for more than 15 weeks.
- ❑ **We continue to believe Congress will pass a fiscal package worth around \$1.5tn** including transfers to households, aid for states and assistance for schools, health providers and businesses. This should provide a fiscal boost worth around 1.5-2% of GDP through 2021 and lift this year's federal budget deficit towards 25% of GDP.
- ❑ **The Fed formally adopted flexible average inflation targeting around 2%.** In addition, it tweaked its employment mandate to be more asymmetric: one in which low unemployment wouldn't lead to a tighter policy stance so long as inflation remained close to the 2% target. The shift solidified our view that the Fed won't raise the policy rate until at least mid-2024



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