In, On and For Emerging Markets

A CEIC Insights Report

US Economy in a Snapshot Q2 2020

Executive Summary

US Economy in a Snapshot is a quarterly publication produced by the CEIC Macroeconomic Research Team. The report is designed to provide a comprehensive, albeit concise overview of the current economic and financial developments. The US Economy in a Snapshot report is produced using data from CEIC's Global Database.

Summary

Real gross domestic product (GDP) declined by an annualized 4.8% q/q in Q4 2019, after increasing by 2.1% in the fourth quarter of 2019.

The figure is an advance estimate and the Bureau of Economic Analysishas indicated it does not quantify the full effects of the COVID-19 pandemic. **Industrial production** has continued to underperform, with the corresponding index (IPI) posting a 5.5% y/y decline in March.

Headline inflation, measured by the **Urban Consumer Price Index (CPI),** increased only slightly, by 0.45% in Q1In fact, the prices of basic commodities, decreased into the first few weeks of 2020 and future Federal Reserve moves will remain highly dependent on inflation readings.

The Federal Reserve lowered its **federal funds rate** twice in March from 1.75% to 0.25% to guarantee sufficient market liquidity amid the economic uncertainty caused by the Covid-19 outbreak. The Fed has furthermore announced there is no limit on additional financing to the economy with its balance sheet growing by USD 600 billion in the last week of March.

The total Q1 **fiscal deficit** stood at just shy of USD 387bn, which was higher than the Q4 2019 deficit of USD 356.6 bn. Total Q1 federal government receipts stood at USD 797.01bn, rising by 8.28% y/y, and total Q1 federal government outlays were USD 1,18tn, an increase of 6.83% y/y. The US government continued to borrow heavily from the public, driving federal debt upwards.

The total US **trade deficit** in goods decreased in the first two months of 2020 mainly due to the fall in global trade volume since the beginning of the Covid-19 crisis. The US' main trading partners, China, Germany, Japan and neighbouring Mexico and Canada were all running surpluses on their bilateral goods trade with the US. The exception was the UK, which ran a deficit. The trade deficit with China narrowed sharply due to the fall in imports.

US Economy: Statistics at a Glance

Name	09/2018	12/2018	03/2019	06/2019	09/2019	12/2019	03/2020
Real GDP, % q/q annualised change	2.90	1.10	3.10	2.00	2.10	2.10	-4.80
Industrial Production Index, % y/y change	5.41	3.77	2.26	1.02	-0.18	-0.85	-5.49
Retail Sales, % y/y change	2.99	0.48	3.59	3.46	3.68	5.63	-3.36
Headline Inflation, % y/y change	2.28	1.91	1.86	1.65	1.71	2.29	1.54
Core Inflation, % y/y change	2.17	2.18	2.04	2.13	2.36	2.26	2.09
Federal Funds Rate: Upper Limit, %	2.25	2.50	2.50	2.50	2.00	1.75	0.25
Federal Funds Rate: Lower Limit, %	2.00	2.25	2.25	2.25	1.75	1.50	0.00
Federal Government Budget Balance, USD bn	-171.90	-318.93	-372.24	-55.94	-237.27	-356.59	-387.00
Federal Government Outlays, % y/y change	1.07	9.62	0.55	10.11	13.62	6.69	6.83
Federal Government Receipts, % y/y change	-2.37	0.22	1.18	5.53	8.30	4.57	8.28
Government Debt, USD tn	21.52	21.97	22.03	22.02	22.72	23.20	23.69
Trade Balance, USD bn	-237.98	-236.35	-189.98	-221.69	-235.48	-205.64	-173.38
Exports, % y/y change	8.22	3.27	1.35	-3.09	-1.68	-1.34	-3.14
Imports, % y/y change	10.75	6.27	-0.03	0.57	-1.45	-5.53	-4.92

Source: CEIC Data, Bureau of Economic Analysis, Federal Reserve Board, US Census Bureau, Bureau of Labour Statistics, Bureau of the Fiscal Service

Economic Outlook

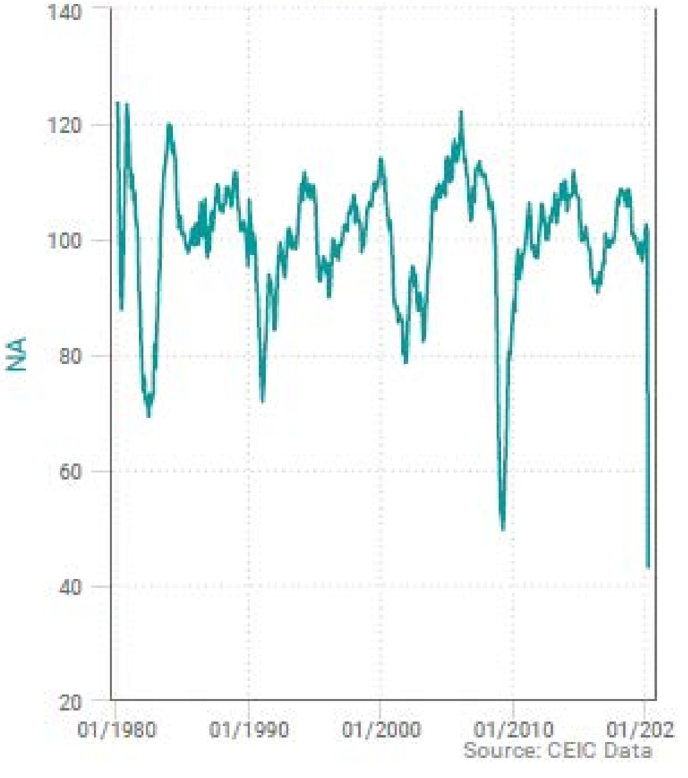
The US economy in Q1 2020 was strongly affected by the effects of the coronavirus crisis causing simultaneous supply and demand shocks affecting consumer demand, investment plans, export sales and employment. Following a relatively calm first few weeks of the year, the disease emerged in the US in mid-February, turning New York into one of the most infected areas worldwide. Donald Trump's calls for a gradual reopening of the economy came up against tough opposition from the health community given there have been 48,816 dead and 899,281 infected with the disease as of April 26. The total shutdown has cost the economy more than 20 million jobs in the four weeks through to April 17 and has increased the uncertainty over workers' incomes.

The CEIC Leading Indicator is pointing to a clear path downwards for the US economy. The main indicator plummeted to 40.16 in March from 100.07 in February, while the smoothed one decreased to 69.47 in March from 80.28 in February.

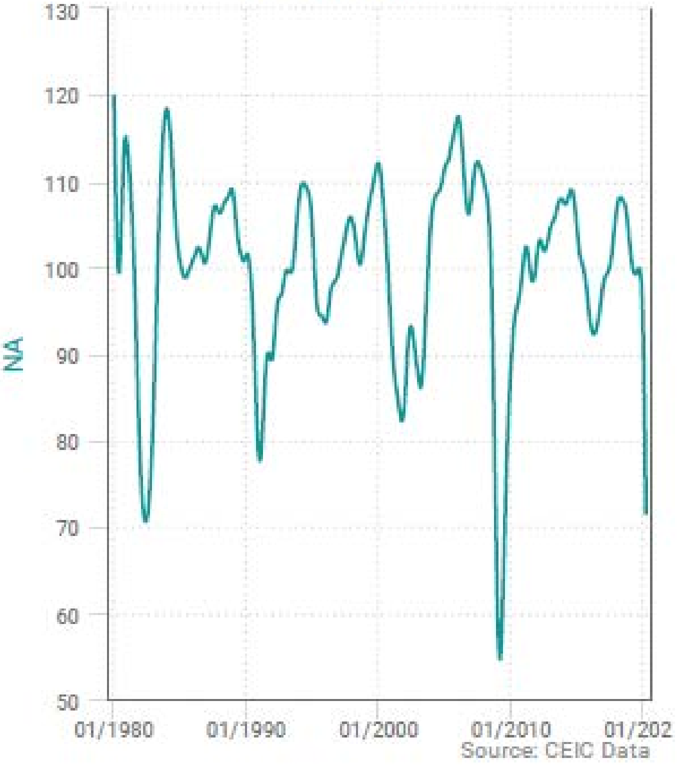
The Covid-19 outbreak has changed US growth projections and consequently the IMF has also lowered its expectations, with the annual GDP growth rate now projected to be -5.9% for 2020. Unemployment, which declined through to the end of Q4 2019, has increased sharply due to the large number of job cuts. As of March 28, 2020, 8.9mn people have filed unemployment claims in the second half of March, compared to only 452 thousand in the first half of the month. Inflation was slightly above 2% y/y in the first two months of 2020 but fell below that level to 1.5% y/y in March. The period of US dollar relative strength continued in Q1 2020 as the dollar index increased by 0.9%m/m and 2.76% q/q in March. Dollar strength will probably continue further into 2020.

The main risks to the US economy are related to the worldwide response to the Covid-19 outbreak. Despite some positive developments in terms of slowing death rates among infected people, the numbers are volatile and it is still hard to predict when the peak of the disease will occur, or indeed whether the decline in infections and deaths can be maintained as the economic lockdown is eased. Comparatively, the US-China trade negotiations have lost importance, as the focus is on providing emergency relief to combat the pandemic and gradually reopening the US economy. Stock market indices have been volatile and overly responsive to every news related to up or down moves of infection rates. The Dow Jones, Nasdaq and S&P500 lost 25.95%, 11.86% and 21.33% in Q1, respectively. Further macroeconomic and stock market developments will strongly depend on how fast the economy returns to normal.

CEIC Leading Indicator
Main



CEIC Leading Indicator
Smoothed



Real Sector

Real Sector

Asexpected, real GDP nosedived in the first quarter of 2020, declining at an annual rate of 4.8% according to the advance estimate. The sudden drop in economic activity had been expected in view of the response to the spread of the coronavirus pandemic, with the US State governments issuing “stay-at-home” orders in March.

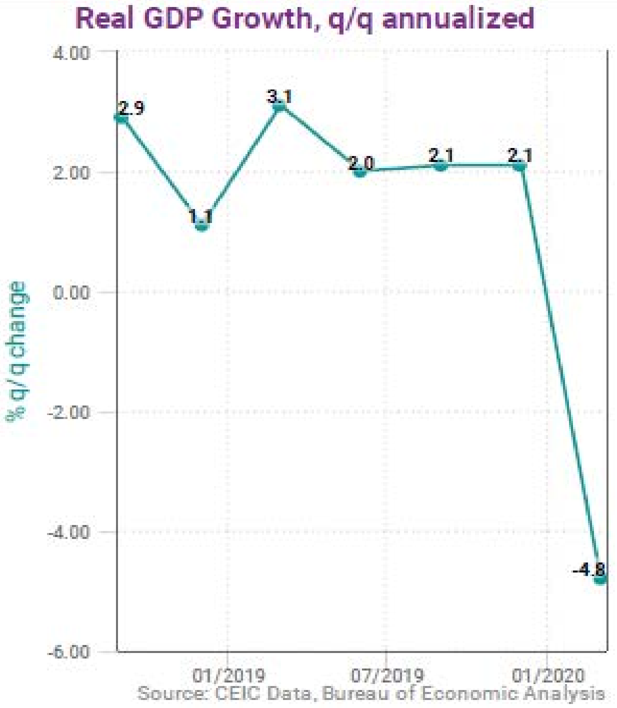
The decline in real GDP reflected negative contributions from personal consumption expenditures (which declined at an annualised 7.6% q/q), non-residential fixed investment (down 8.6%), goods and services exports (by 8.7%, with services falling by 21.5%), and private inventory investment (or stock building). There were positive contributions from residential fixed investment (rising at an annualised 21% q/q), a steep contraction in goods and services imports (by 15.3%) and from government spending at the federal, state and local levels despite sharply lower growth of defence spending.

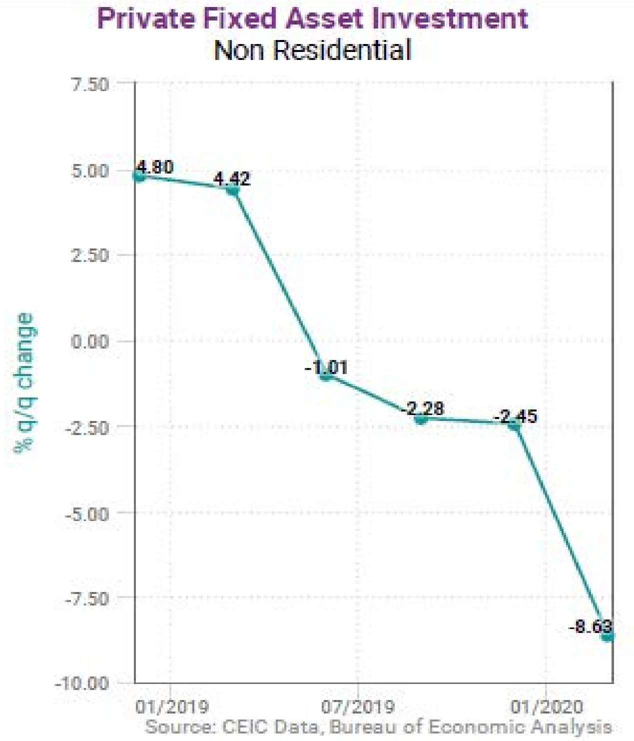
The industrial production index (IPI) declined by 0.9% y/y in January but in March it plunged by 5.5% y/y. The consumer goods sub-index took a steep dive in March, falling by 6.3% y/y. So did the equipment component, declining by 10.4%. The intermediate products sub-index and the materials sub-index fell by 5.2% y/y and 3.7% y/y in March, respectively. In view of the worsening situation in March the Federal Reserve lowered the target range for its federal funds rate by 100 basis points to between zero and 0.25% and pledged a no-limit asset purchase programme to inject cash into banks, involving both government bonds and corporate debt. The Fed also took action to provide an additional USD 2.3tn to assist households and employers of all sizes.

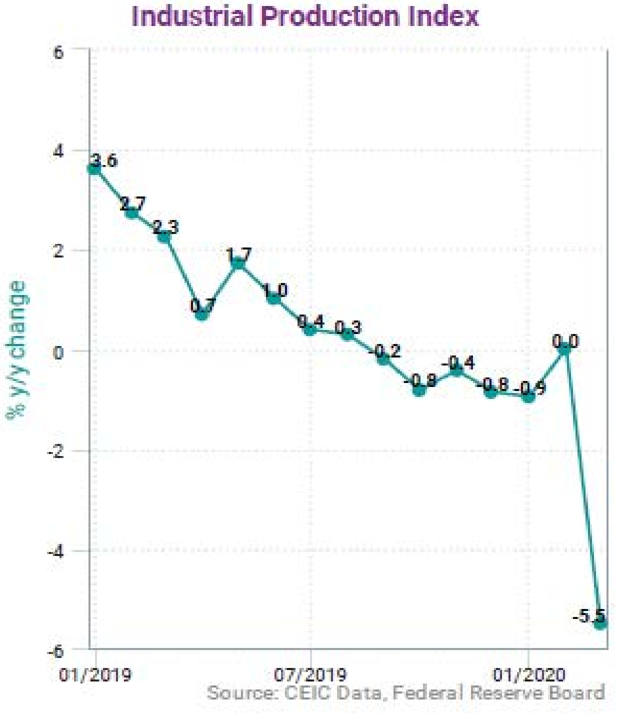
Retail sales rose in January by 4.8% y/y but began falling sharply in March by 3.8% y/y due to the Covid-19 outbreak leading to shop closures and a slump in consumer demand, and the short-term outlook remains negative. The Johnson Redbook Sales Index, which measures the weekly sales of about 9,000 large merchandise retailers across the US, grew by between 4.80% and 9.10% y/y in each week during Q1. The strongest sales periods were the second and third week of March, just before Covid-19 took hold in the US. The strong and mass job cuts will show through, however, as consumer spending begins to feel the effects of higher unemployment and lower pay. Indeed, the Johnson Redbook Index for the first week of Aprildeclined by 2% and by 6.9% in the first two weeks of April.

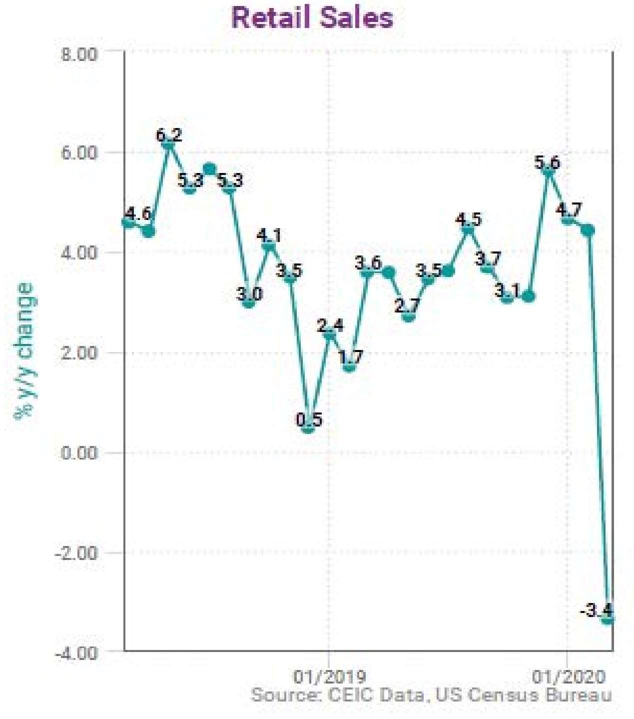
The US economy lost momentum in the latter half of Q1 due to the Covid-19 outbreak with the unemployment rate coming off its 24-month low in Q4 2019. The March unemployment rate stood at 4.50%, up from 3.50% in February. The unemployment rate is higher among part-time and lower age workers. Weeklyjobless claims were below 250,000 in all weeks from the beginning of the year to the Covid-19 outbreak in the third week of March. Since the last week of March through to mid-Apriljobless claims have topped 3mn in each of those weeks, bringing the total number of unemployment applications to over 26mn since the beginning of the pandemic. Since the peak of the outbreak lies ahead, it is to be expected there will be several more weeks of jobless claims of a few million each, before the slowdown ensues. Averagehourly earnings kept increasing in the first two months of Q1 as in the last two quarters of 2019, at rates close to inflation. The sudden peak in jobless claims could bring average hourly earnings down temporarily until the job market recovers.

Construction production increased in January by 8.66% y/y, and in February by 7.78% y/y. Meanwhile, the house price index increased in January and February by 5.4% y/y and by 5.7%, respectively. The housing market index remained relatively unchanged, pointing slightly downward in Q1, but stumbling to 30 in April from 72 in March, as the market felt the full impact of the mass job cuts following the Covid-19 outbreak. The interruption to the housing market will likely lead to price falls, which may continue until the economy recovers.









Monetary & Financial Sector

Monetary and Financial Sector

Inflation measured by the Core CPI indicator remained close to 2.5% in the first three months of 2020. The CPI slowed down to 1.5% in March 2020 from 2.5% in January 2020. The Federal Reserve undertook two significant rate cuts in March, slashing the Federal funds rate by 1.50pp to a range of 0.25% - 0% in response to the Covid-19 pandemic.

The Producer Price Index (PPI), which is an early indicator of consumer price inflation, remained below 1.5% in March and April on a y/y basis.

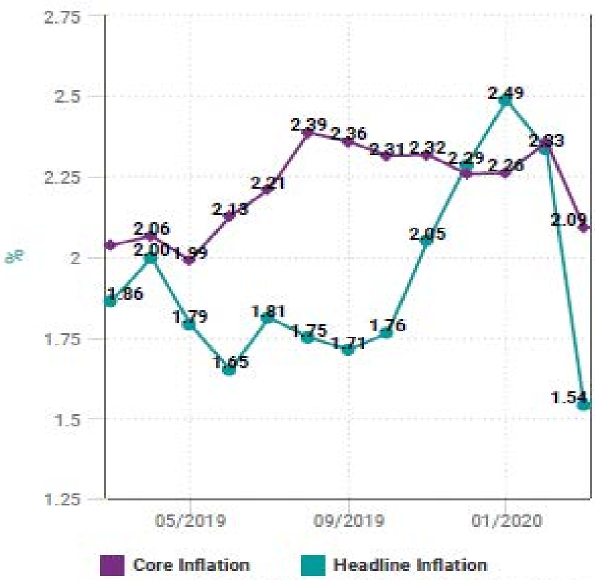
The prime lending rate declined to 3.81% in March, after remaining at 4.75% between November and February. Price indices indicate that inflation has remained within the Fed's prescribed limits with the negative readings caused mainly by the sudden shock in demand due to the crisis. So far the Fed has responded appropriately using the monetary tools at its disposal, including the creation of several new facilities to promote the flow of credit to businesses and lowering interest rates, which are likely to remain low for the foreseeable future.

The dollar remained strong against other major currencies in the first two months of 2020 but gained in strength especially in March as the crisis magnified. The dollar index, measuring the strength of the dollar against a basket of major currencies, increased by 5.36% overall since the beginning of March until April 26, 2020, but it peaked in the second week of March, when it rose by 8.48% in just two weeks. This can be largely explained by the role of the dollar as a reserve currency, which has kept its attractiveness despite the US being strongly affected by the outbreak of the disease. Foreign exchange movements will strongly depend on Covid-19 developments. In the case of a slow return to normality over several months and the slow recovery of demand and GDP growth, the US dollar is likely to depreciate slightly against other major currencies, as risk aversion eases, and in view of narrow interest rate differentials. The re-establishment of a larger growth differential between the US and other developed economies which existed in 2018 and 2019, however, would justify a strong dollar continuing.

The monetary base increased by 13.32% as of end-March 2020 compared with December 2019. With an increase in demand and savings deposits at banks, and investments in institutional money market and retail market funds, total deposits stood at USD 13.9tn as of March, up 10.20% y/y. Deposits have jumped, especially in March compared to February, by 4.12% m/m. In January and February, the commercial banks were gradually increasing their asset base in line with continuing GDP expansion. Cash balances and security holdings of banks increased compared to Q4 2019, and commercial portfolios expanded gradually. In March, borrowing by companies peaked due to the sudden shock and the demand for refinancing outstanding obligations. March mortgage-backed loans also increased by 2.90% m/m. Consumer loans, such as credit card and automobile loans, dropped in February and March due to the unwillingness of banks to refinance consumer-related obligations amid high income uncertainty and the lack of a Fed-supported facility that redirects funds directly to consumers. The allowance for loan losses remained close to the previous quarter's levels. However, allowance levels are likely to change further into the year and will have to be re-examined later in 2020. Taking on board the significant financing provided to the banking system and the economy through the Fed's funding facilities, a major shock to the banking system appears unlikely.

The US stock markets suffered a large-scale correction in Q1 2020 due to the outbreak of the Covid-19 infection. US stock market indices have outperformed their European and Asiancounterparts over the past several years but entered bear market territory at the beginning of March due to the sharply worsening prospects for the global economy. From its peak reached on February 19, 2020, the S&P 500 fell by 33.93% to 2237.40 points as of the market close on March 23. For the same period, the Dow Jonesand Nasdaqlost 36.65% and 30.12%, respectively. Since then these stock markets have recovered a little of their losses with the disease seemingly peaking and governments announcing plans to gradually ease the lockdowns. International trade issues have become less important for share price movements relative to the virus-related events. Withvalues depressed, and volatility increased, investor returns will greatly depend on the ability to pick undervalued stocks showing the greatest potential for post-pandemic recovery gains.

Headline & Core Inflation

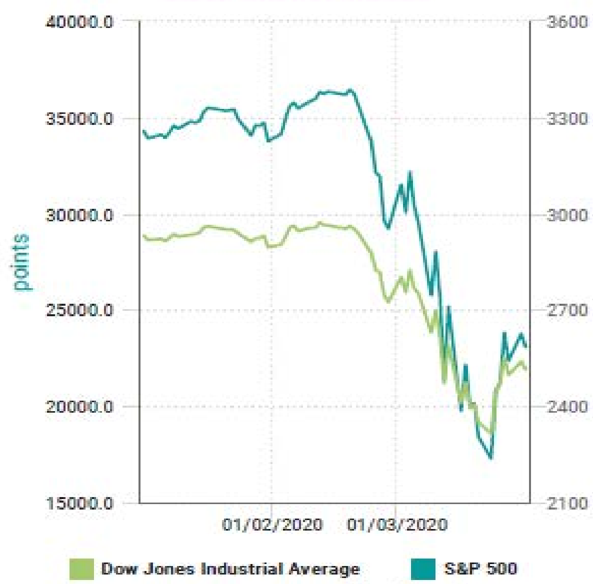


Source: CEIC Data, Bureau of Labor Statistics

Federal Funds Rate

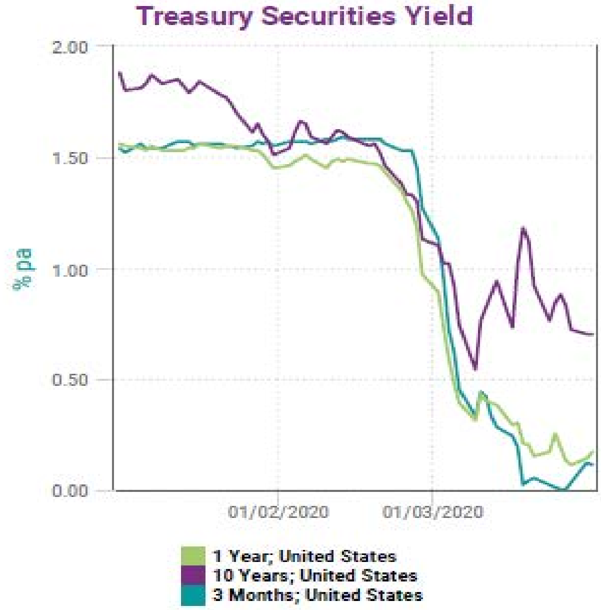
Source: CEIC Data, Federal Reserve Board

Stock Market Indices



Source: CEIC Data, Standard & Poor's, Dow Jones

Treasury Securities Yield



Source: CEIC Data, Federal Reserve Board

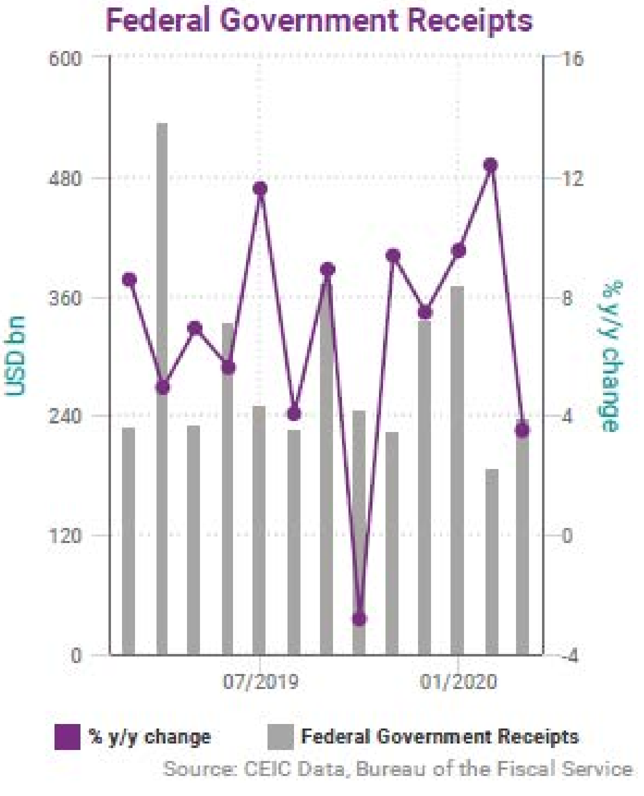
Fiscal Sector

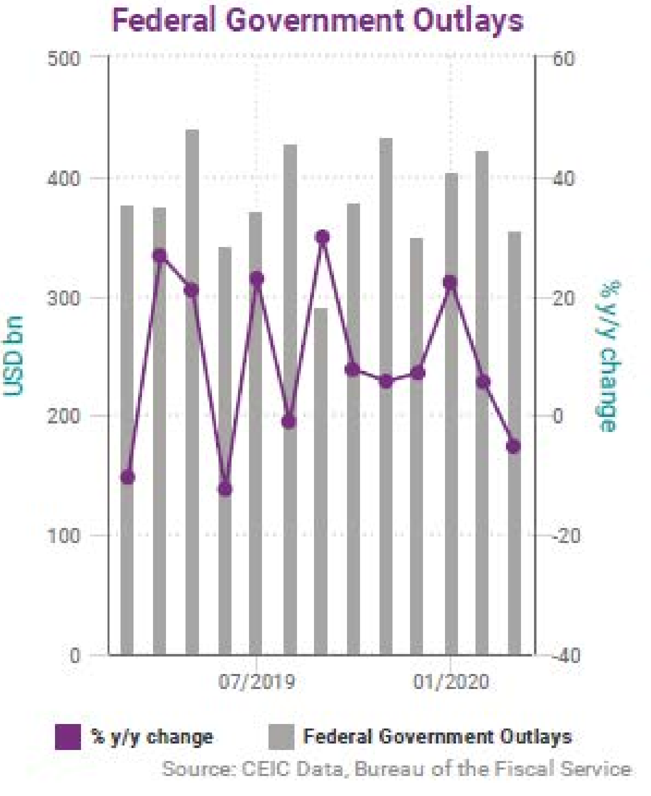
Fiscal Sector

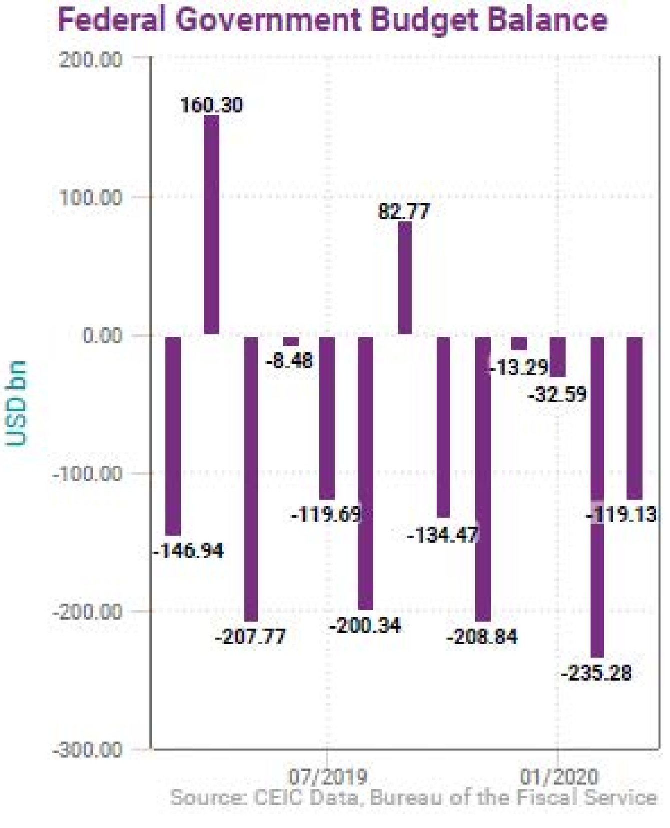
The total level of US indebtedness is still rising, with two of the most recent developments - tax cuts and tariff hikes failing to alter the overall picture substantially, leaving US federal debt high both as a percentage of GDP and in nominal terms. The federal government budget was in deficit in all three months of Q1 2020, resulting in a total Q1 deficit of USD 387bn which was higher than the Q4 2019 deficit of USD 356.6bn. Total Q1 federal government receipts stood at USD 797.01bn, increasing by 8.28% y/y, while total Q1 federal government outlays were USD 1,184.0bn, rising by 6.83% y/y.

The US government continued to borrow heavily from the public in Q1 2020, with US Federal debt standing at USD 23.69 trillion as of the end of March 2020, up 7.53% y/y. Proceeds from public borrowings went mainly to increase operating cash and reduce other borrowings. 10-year treasury yields dropped to record lows after the Covid-19 outbreak in February, reaching levels below 0.80%. Amid the widespread closure of businesses, the government and Senate agreed on an unprecedented USD 2.3tn cash injection to businesses and 'revenue-pinched' state governments as of the end of March, which will increase the overall debt burden for several quarters. This includes the Payroll Protection Program and other measures aimed at providing money to small businesses with total annual revenue below USD 2.5bn, while bolstering municipal finances with a USD 500bn lending programme. Larger businesses are to qualify for a USD 600bn lending vehicle, whereby the Fed purchases 95% of the loans through a Special Purpose Vehicle created together with the Treasury Department.

Aside from the additional burden created by the crisis, net government borrowing on an annual basis is forecast to continue rising at a constant pace over the coming two years. Federal and state government debt, the larger share of which is federal government debt, has been gradually increasing in the past decade, and last year was no exception. The largest share of this debt has a maturity longer than one year. Central government borrowing is forecast to increase US government debt by 5.61% in 2020, and by an additional 4.67% in 2021. Most of this debt is to be held by the public which has not lost its appetite for US bonds and bills. Considering the continuing solid macroeconomic performance of the US economy (the pandemic notwithstanding), and investors' voracious appetite for US issuance, as indicated by relatively low yields on government securities, the US level of indebtedness is still not a major cause of concern.


Federal Government Receipts
USD bn
% y/y change
07/2019
01/2020
% y/y change
Federal Government Receipts
Source: CEIC Data, Bureau of the Fiscal Service


Federal Government Outlays
USD bn
% y/y change
07/2019
01/2020
% y/y change
Federal Government Outlays
Source: CEIC Data, Bureau of the Fiscal Service


Federal Government Budget Balance
USD bn
160.30
82.77
-146.94
-207.77
-8.48
-119.69
-200.34
-134.47
-208.84
-13.29
-32.59
-235.28
-119.13
07/2019
01/2020
Source: CEIC Data, Bureau of the Fiscal Service


Government Debt
USD tn
22.03
22.03
22.46
23.01
23.20
23.69
24.97
07/2019
01/2020
Source: CEIC Data, Bureau of the Fiscal Service

External Sector

External Sector

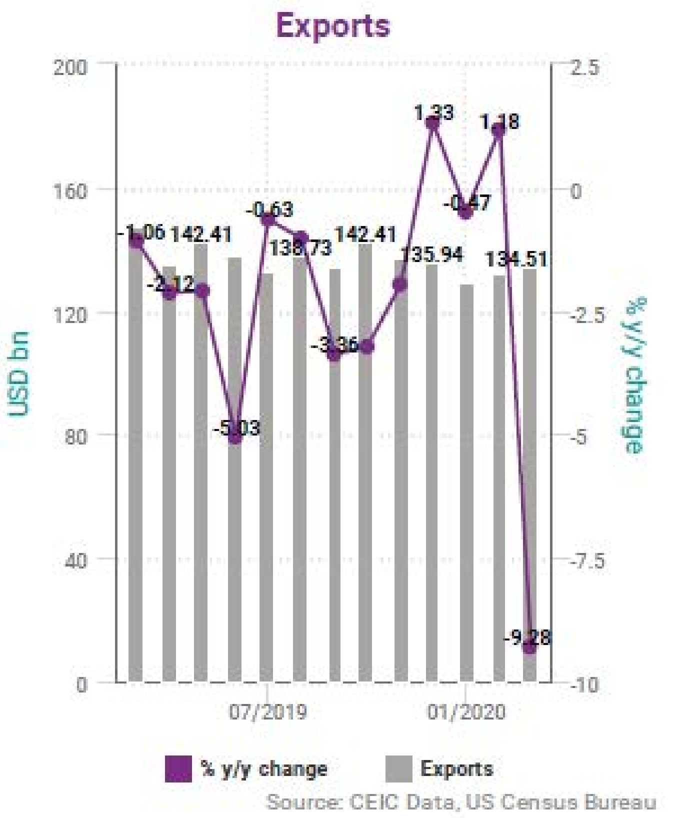
The US has been running high trade and current account deficits over the past 20 years, mainly financed through capital inflows. The total US trade deficit in goods for the first two months of 2020 decreased by 12.74% y/y to USD 113.66bn, mainly due to the fall in global trade turnover since the beginning of the Covid-19 crisis.

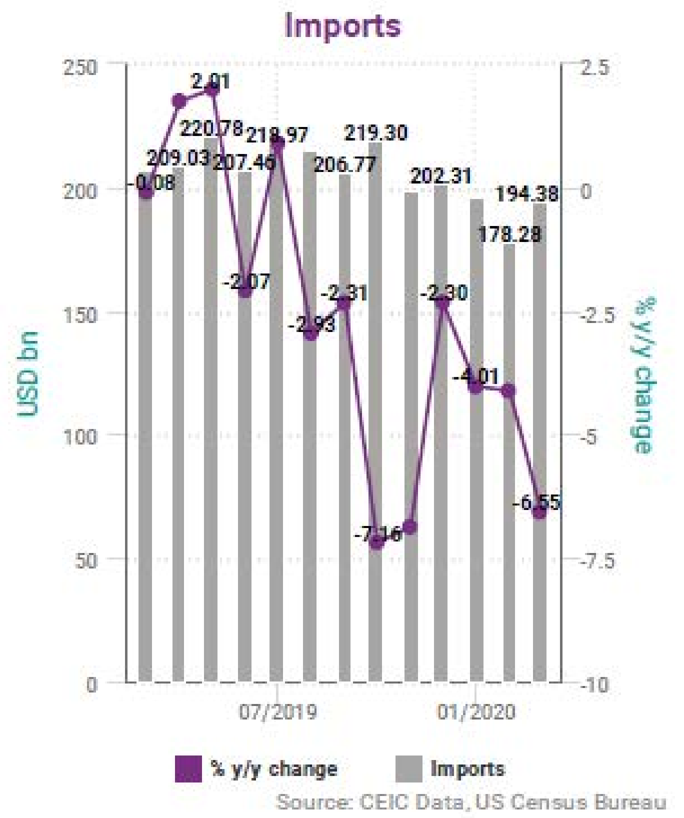
Most of the US' main trading partners, China, Germany, Japan, and neighbouring Mexico and Canada, were all running relatively large surpluses on bilateral trade with the US. The UK is the exception, which recorded a trade deficit. The largest trade partner by far is China, which is also running the largest trade surplus with the US, totalling USD 41.06bn as of the first two months of 2020, though it fell by 30.68% compared with the same period in 2019 due to the large drop in imports. The drop in imports was caused by two Covid-19 related developments. First, the pandemic led to the closing of numerous production facilities in China during the beginning of the outbreak in January, some of which sell to the US. Second, it affected US internal demand which also pushed down imports and is likely to keep them low for the foreseeable future. The US quarterly trade deficit with China is likely to return to average levels as the US economy returns to growth. In Q2 and Q3 trade turnover between the US and China is more likely to be affected by Covid-19 developments and less by issues related to trade negotiations.

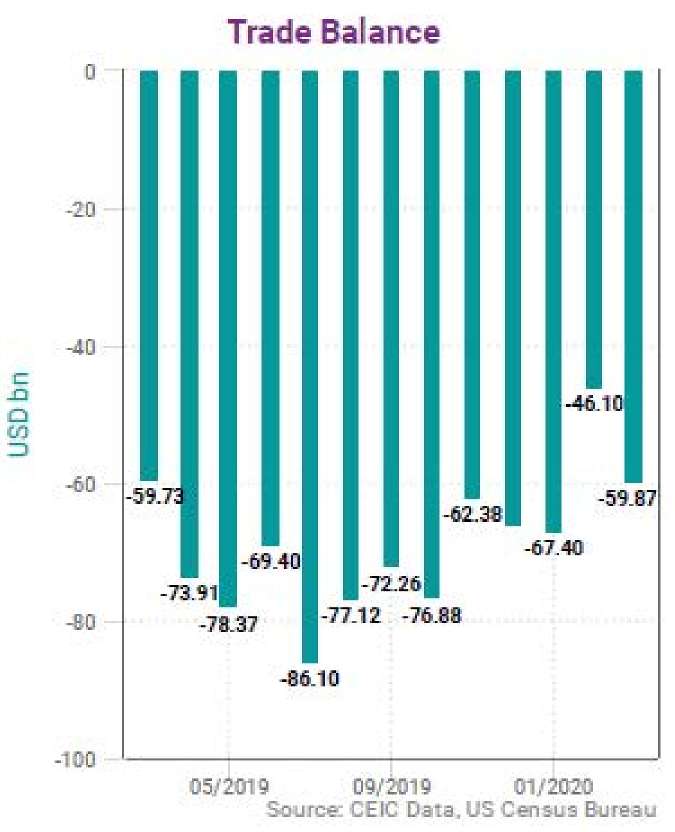
The US trade balance with other major trade partners did not change to such a great extent. The US ran deficits with Germany and Japan, which shrank slightly in y/y terms due to the Covid-19 effect on US consumer demand. The January-February trade deficit with Japan stood at USD 10.03bn, down 14.14% y/y, while the trade deficit with Germany for the same period stood at USD 9.50bn, down 6.97%. The trade balance with the UK was positive, much like in Q4 2019, at USD 3.11bn, up 22.21% compared with the same period in 2019. The UK is likely to grow as a more important trade partner now that it has moved away from the EU. These developments, however, will depend on a trade deal.

US trade with neighbouring countries behaved somewhat differently than trade with China. While trade turnover decreased in line with global trade turnover, the US ran much larger trade deficits with Canada and Mexico in the first two months of 2020 compared with the same period in 2019. The trade deficit with Canada grew by 148.38% y/y to USD 5.28bn, and the trade deficit with Mexico was up by 102.72% to USD 27.77bn.

This probably reflected a shift in markets to source some of the imports lost from China and is to be considered a temporary effect. In general, it should be expected that the slowdown in economic activity will keep US trade turnover lower than average for some time.


Exports
USD bn
% y/y change
200
160
120
80
40
0
2.5
0
-2.5
-5
-7.5
-10
-1.06
142.41
-2.12
-5.03
-0.63
138.73
-3.36
142.41
135.94
1.33
-0.47
1.18
134.51
-9.28
07/2019
01/2020
% y/y change
Exports
Source: CEIC Data, US Census Bureau


Imports
USD bn
% y/y change
250
200
150
100
50
0
2.5
0
-2.5
-5
-7.5
-10
-0.08
209.03
2.01
220.78
207.46
-2.07
218.97
-2.93
206.77
-2.31
219.30
-7.16
202.31
-2.30
-4.01
178.28
194.38
-6.55
07/2019
01/2020
% y/y change
Imports
Source: CEIC Data, US Census Bureau


Trade Balance
USD bn
0
-20
-40
-60
-80
-100
-59.73
-73.91
-78.37
-69.40
-86.10
-77.12
-72.26
-76.88
-62.38
-67.40
-46.10
-59.87
05/2019
09/2019
01/2020
Source: CEIC Data, US Census Bureau


Current Account Balance
USD bn
0
-25
-50
-75
-100
-125
-150
-175
-125.74
-143.93
-136.90
-126.25
-125.38
-109.82
01/2019
07/2019
01/2020
Source: CEIC Data, Bureau of Economic Analysis

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About CEIC Data

CEIC is an ISI Emerging Markets Group Company specialized in high quality macroeconomic databases. CEIC's databases have earned a world-class reputation among financial institutions, government agencies, universities, and corporations due to accuracy and comprehensiveness. Today, we are the service of choice for economic research on emerging and developed markets by economists around the globe.

CEIC Insights

CEIC Insights is a unit of CEIC Data that produces proprietary research and analysis. The service features data templates with dynamic visuals for Emerging and Developed markets, providing instant insight from macro overviews to individual sector analysis.

ASIA OFFICE

5/F, V-Point, 18 Tang Lung Street,
Causeway Bay
Hong Kong, SAR
of P.R. China
Voice: +852 5801 4141
nainfo@isimarkets.com

EUROPE OFFICE

CityPoint
1 Ropemaker Street
London, EC2Y 9HT
United Kingdom
Voice: +44 207 153 1205
euinfo@isimarkets.com

NORTH AMERICA OFFICE

12 E 49th St
New York, New York
10017
US
Voice: +1 212 610 2900
usinfo@isimarkets.com

LATIN AMERICA OFFICE

Rua Bandeira Paulista,
702 - 12º andar Itaim Bibi
São Paulo, Brazil

Voice: +55 11 4410 4250
lataminfo@isimarkets.com