

Economy

Focus US

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US economy on life support

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In its most severe form, the coronavirus causes respiratory problems that may result in death. Asphyxia is also what threatens the economies of countries that have put in place lockdown measures on all or part of their territory. This has been the case in the US for around a week. Oxygen is therefore needed along with the tools and procedures for administering the right dose. The Fed and the US Treasury are at the helm. The Fed, which is the fastest to act, is placing hardly any limits on the scope of its intervention. The Senate recently adopted a relief package amounting to around 10 points of GDP.

The week's focus

In one week, 2% of the labour force have found themselves unemployed. There may be more next week, and more the week after, etc. This is unprecedented in the US history, but unfortunately it is the logical consequence of an economy that has shut down in a number of sectors. Nearly 50 million employees are directly at risk, those who work in retail (17 million), leisure, hotels and catering (15 million), transport (8 million) and various other services. These are typically sectors where median income is lower than the national average and where precautionary savings are low or non-existent.

Shutting down the economy is the cure, if not for the virus, then in any case for its overly rapid spread. Since it is a public health goal, with broad backing from medical experts, there is no way to avoid a severe contraction in GDP and a spectacular rise in unemployment. Donald Trump is complaining about the cost of the public health crisis, but the early reopening of the US economy that he is promising (without having the authority to impose it on State governors) could just make things worse. The role of the policymakers is to offer maximum compensation to keep the economy fit to recover vigorously when the public health situation allows the lockdown measures to be lifted. Here we give a recap on the fiscal and monetary measures recently announced.

➤ **Fiscal action** – After some umming and aching because this is an election year, the Senate passed a relief package¹. Altogether, the aid, guarantees and spending total \$ 2,200bn. The main lines are:

- \$ 290bn: cheques or tax rebates to households subject to means testing (\$ 1,200 per adult and \$ 500 per child)
- \$ 260bn: expansion of the maximum amount and duration of unemployment benefits
- \$ 450bn: guarantees for the programme of loans by the Fed (up to potentially \$ 4.5 trillion) to large corporations and local governments.
- \$ 377bn: loans and loan guarantees for small businesses
- \$ 150bn: direct aid to states and local governments
- \$ 180bn: increased spending on the healthcare system
- \$ 280bn: cut in business tax
- \$ 50bn: direct loans to airlines and businesses that are critical to maintaining national security
- \$ 40bn: extension of various social benefits (food stamps)
- And more than \$ 100bn in various outlays

➤ **Monetary action** – Since the emergency rate cut on 3 March, the Fed has stepped up its interventions on all fronts:

- Cut in interest rates to zero (-150bp in two weeks)
- Virtual elimination of the discount window penalty (set at 0.25%) and stigma
- Relaunching of QE, firstly with an envelope of \$ 500m in Treasury securities and

¹ Coronavirus Aid, Relief and Economic Security (CARES) Act: <https://files.taxfoundation.org/20200325223111/FINAL-FINAL-CARES-ACT.pdf>. See also CRFB (2020), "What's in the \$2 Trillion Coronavirus Relief Package?", blogpost of 25 March

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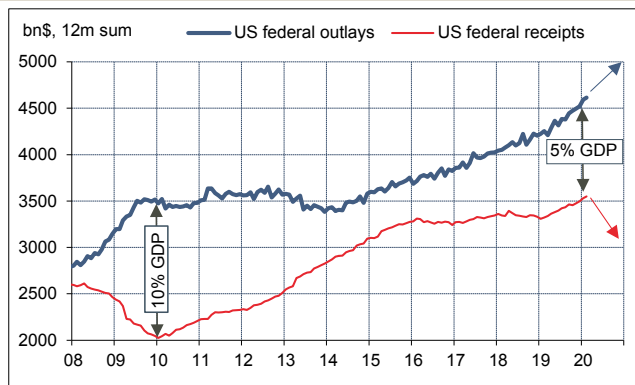
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\$ 200m in Mortgage-Backed Securities, with no limit thereafter.

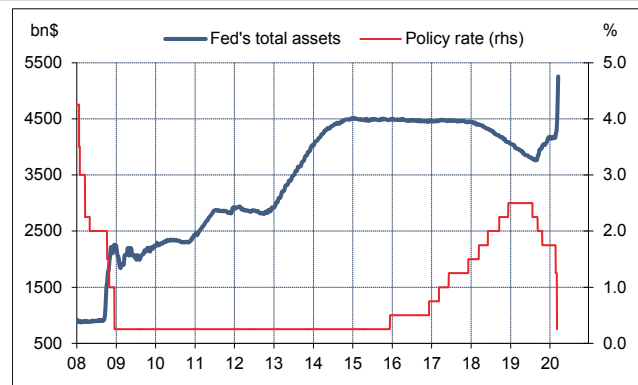
- Relaunching of the liquidity injection programmes used in 2008-2009: Commercial Paper Funding Facility (CPFF), Primary Dealer Credit Facility (PDCF) and Money Market Mutual Fund Liquidity Facility (MMMLF). This latter measure is more extensive than the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility of 2008, it can notably purchase the short-term debt of local municipalities.
- Creation of support tools for the corporate debt market: Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF). A programme is also designed for households: Term Asset-Backed Securities Loan Facility (TALF). A programme designed to support credit for SMEs is currently being drawn-up.
- The easing of regulations on banks.

US: federal outlays and receipts



Sources: Thomson Reuters, Fed, Oddo BHF Securities

US: the Fed's assets and policy rates



All told, the relaxation of the policy-mix is considerable. The budget deficit is moving towards 10% of GDP, around double that of 2019, and equalling the record level of 2009 (chart lhs). The expansion of the central bank's balance sheet is more rapid than in 2008, from a far wider base (chart rhs). It is difficult to say whether these measures will be enough since the health crisis is far from stabilised, but the reaction to the unprecedented shock is itself of an unprecedented scale and speed.

Economy

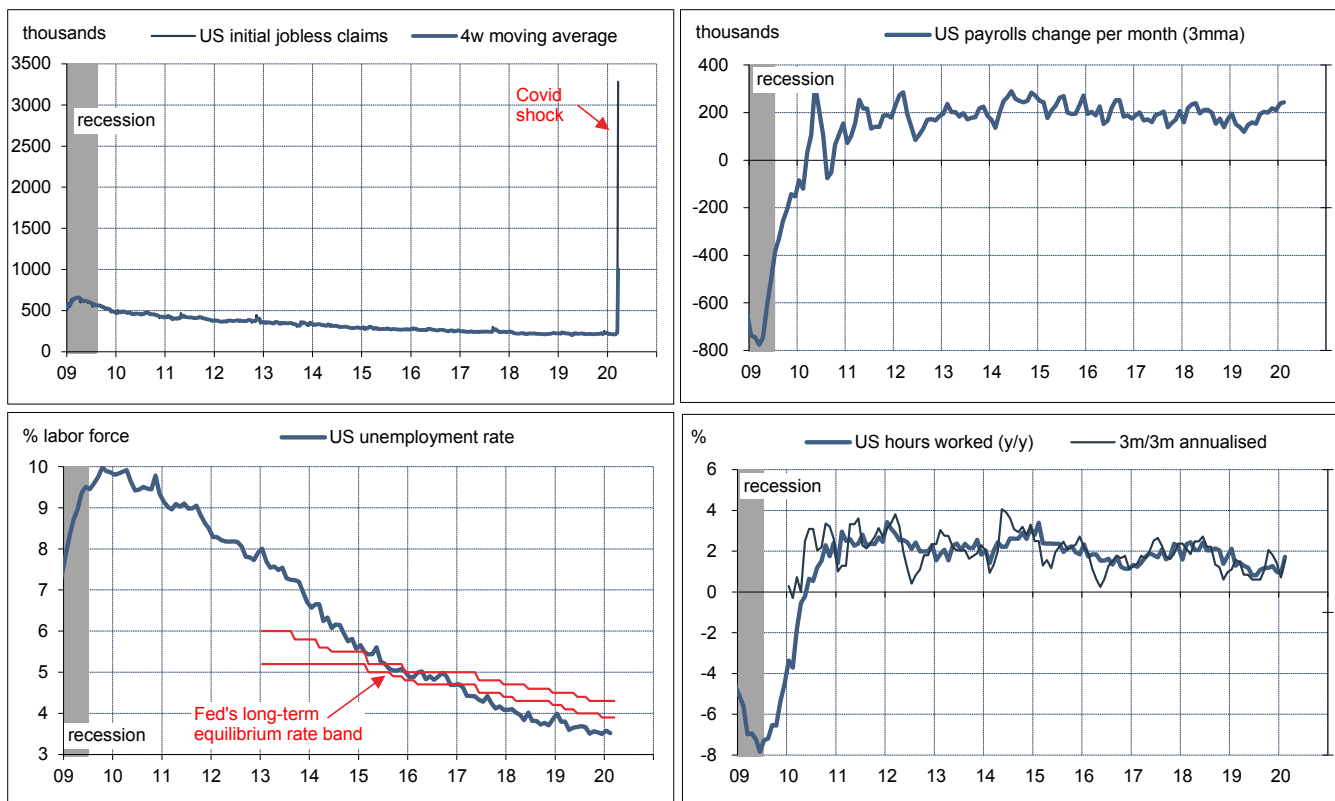
- Data for **February** (dynamic home sales, increase in durable goods orders) are now clearly worthless. They nonetheless depict a solid economy. With **March**, the expansionary phase has come to a sudden end. It will have lasted for a record 130 months. It is now time for a dive! This began to materialise this week with the PMI flash surveys. The composite index fell 9.1 points to 40.5, above all, due to services (-10.3 points to 39.1). But don't be misled by the relative resilience of the PMI manufacturing index (-1.5 points to 49.2). It is constructed in such a way that it is influenced by delivery times. In an ordinary recession, this component declines, but in the present case it has surged due to the sudden stoppage of many production sites. The decline in the PMI indices in the US is for the time being less violent compared with what we observed in China, Japan and Europe. This largely reflects the lag in the application of confinement measures. The low point is undoubtedly ahead.
- As suggested by the data coming from a number of states, jobless claims exploded on a national level in the week of **19 March**. They stand at 3.3 million. Relative to the work force this is around five times higher than the peaks reached during the 1982 and 2008 recessions.

The week ahead

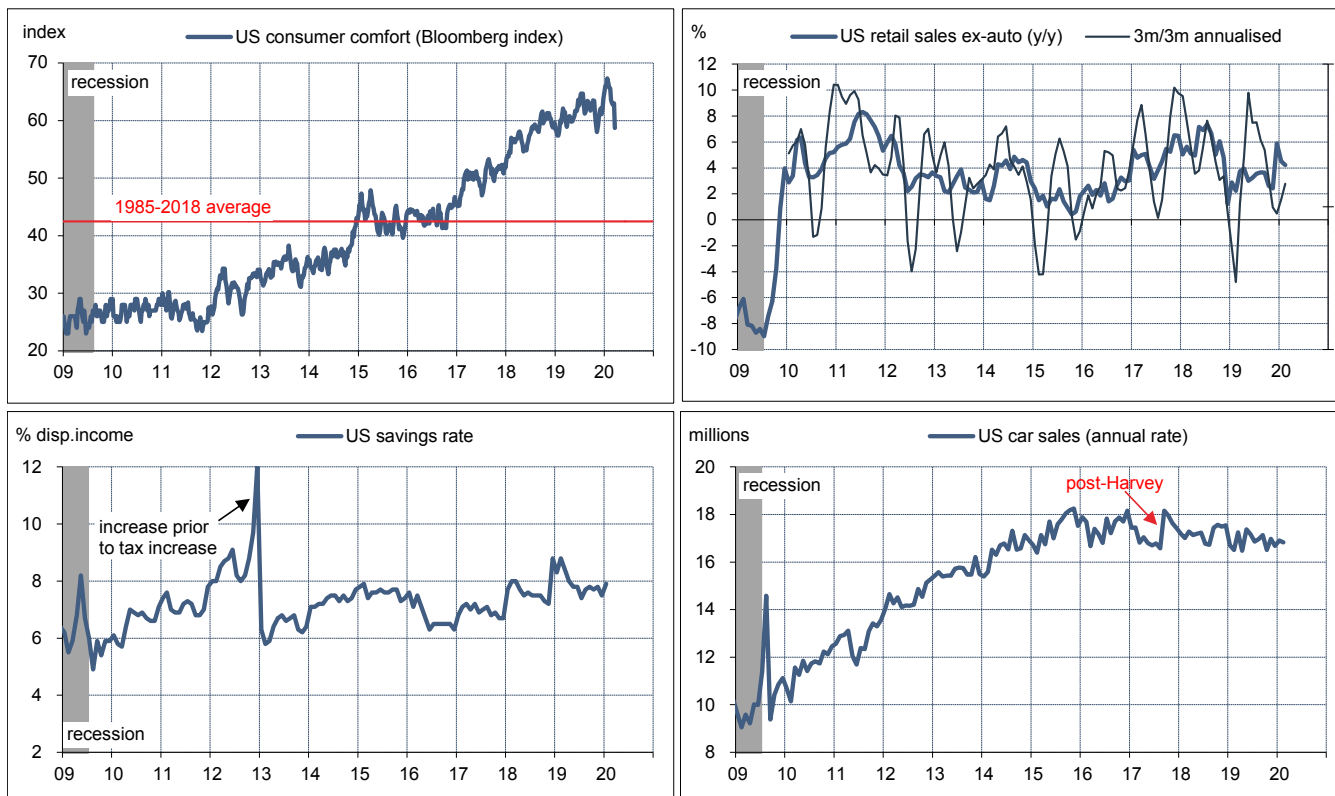
- Like the PMIs, the ISM indices (**1 April** for the manufacturing sector, **3** for non-manufacturing) should collapse. Consumer confidence (**31 March**) will go in the same direction. The monthly jobs report (**3 April**) is produced based on surveys carried out in the week containing the 12th of the month. At 12 March, the coronavirus shock was just getting started (initial claims up +71k, +3m one week later). Total employment might contract – it would be a first since mid-2010 – but, at worst, it will be to a fairly modest extent this time. The new jobless claims figure on 26 March (published on **2**) will provide a more comprehensive picture of the conditions on the labour market.



Appendix 1 - Labour market



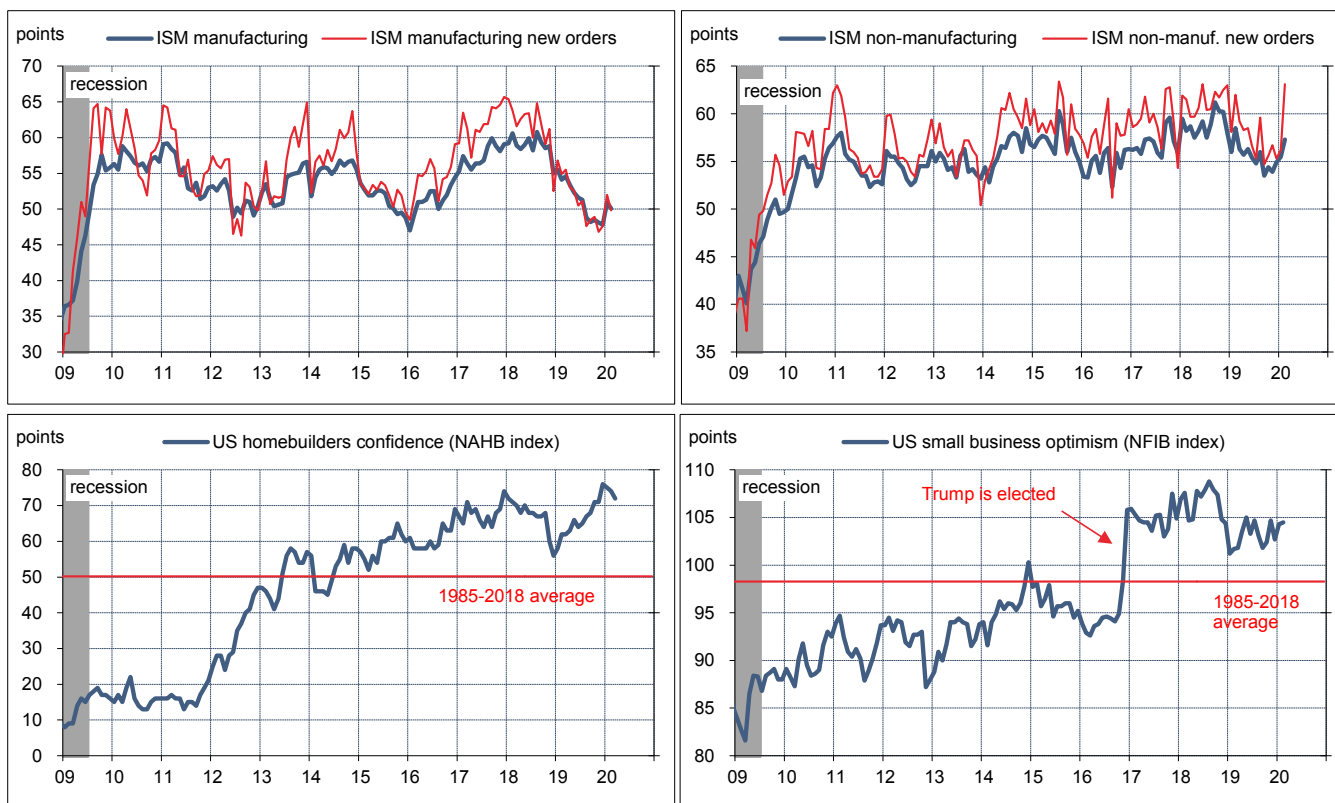
Appendix 2 - Consumer



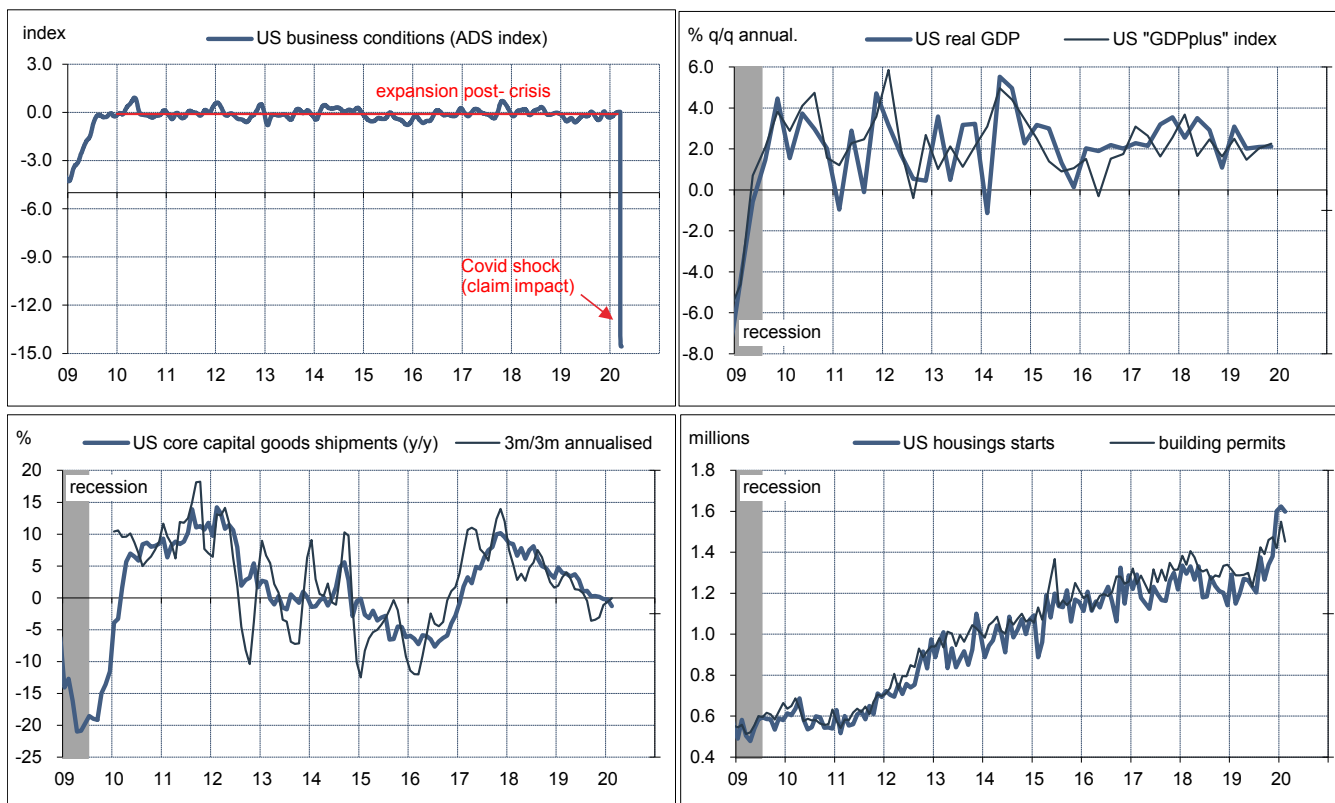
Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities



Appendix 3 - Business climate



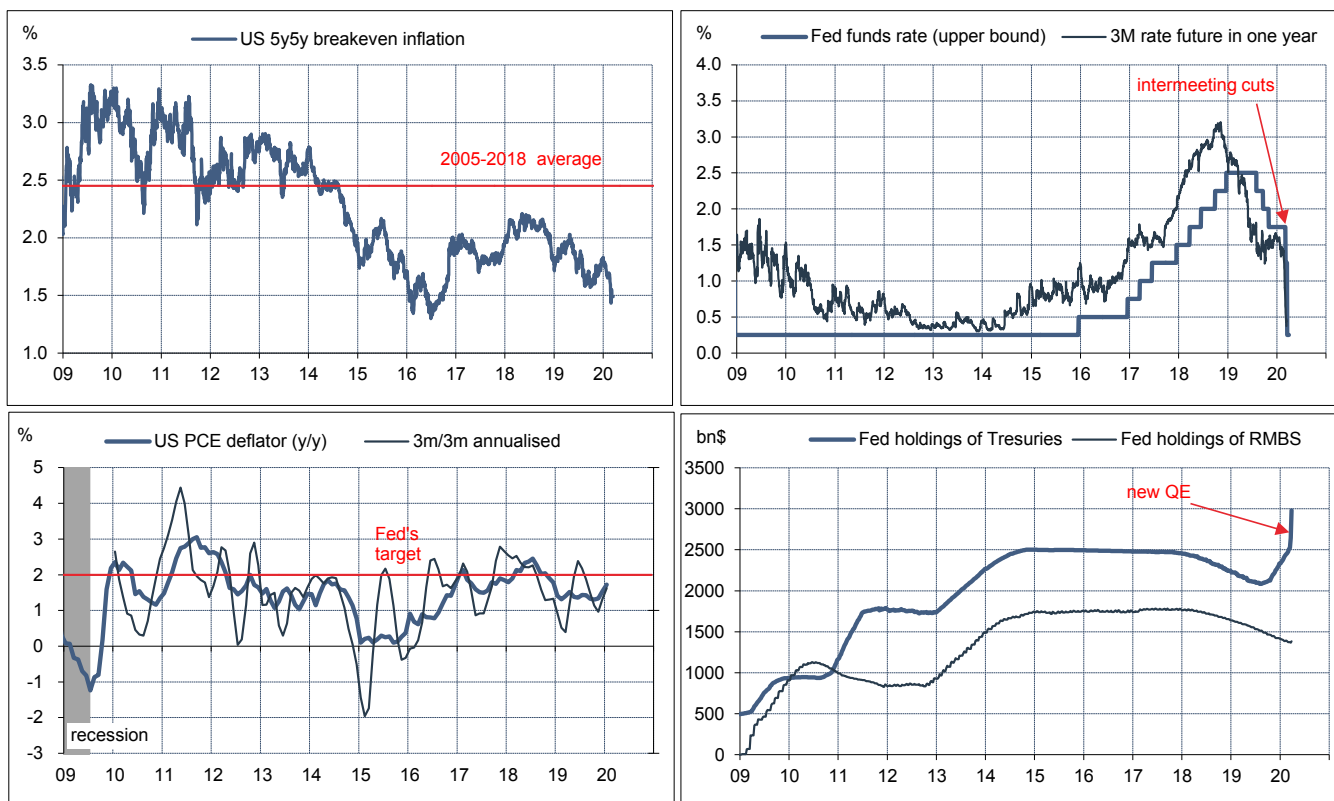
Appendix 4 - Conditions of economic activity



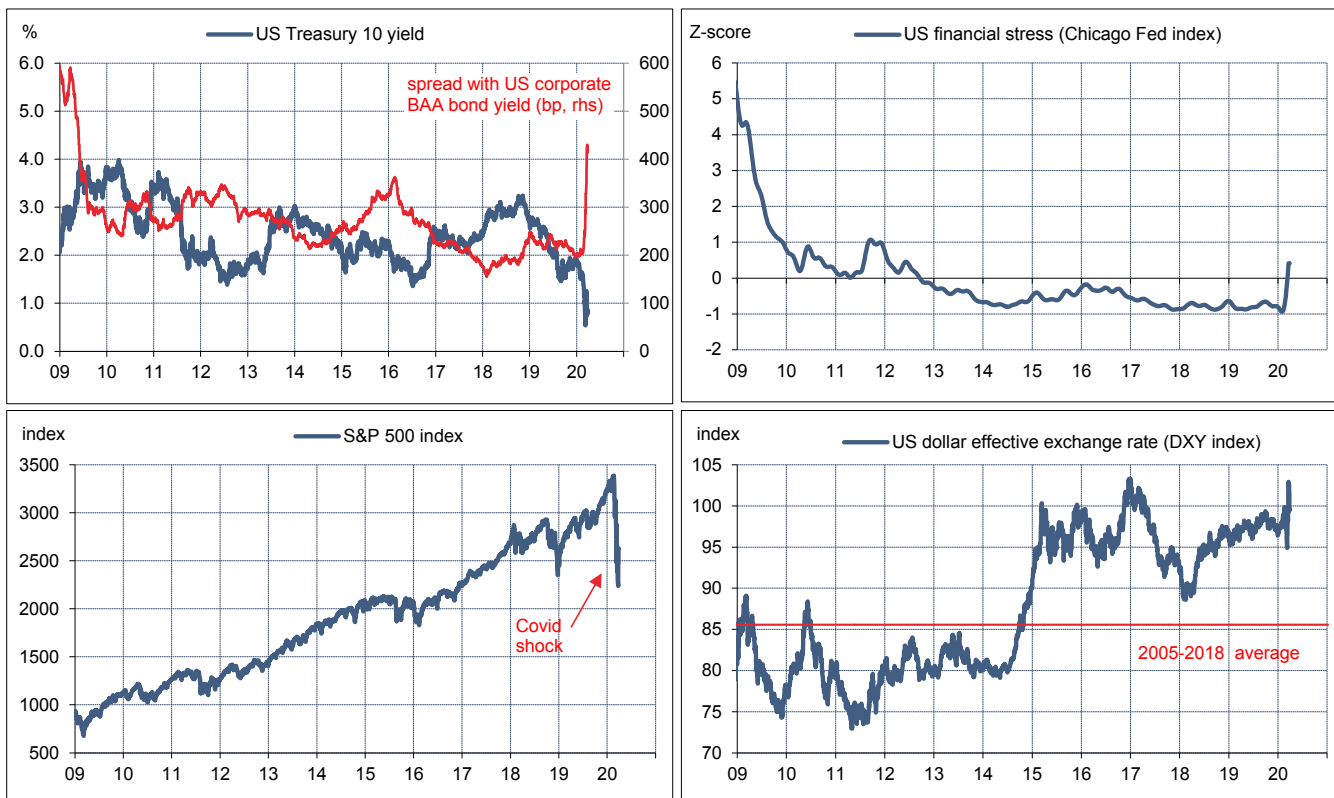
Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities



Appendix 5 - Inflation and monetary policy



Appendix 6 - Financial markets



Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities



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