

The Outlook for the US Economy

The US economy is deteriorating at an ever-faster pace at present due to the Covid 19 pandemic

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The US economy has seemingly been declining at an accelerated rate since the end of February, when Covid 19 cases of unknown origin were detected in the country. By the morning of 3rd April (Japan local time), the number of infected in the US had exploded to 243,000 – the highest in the world – and a number of states which together account for around 40% of US GDP issued a stay-at-home order, which has placed an unprecedented restriction on economic activities and led to the economic decline.

According to fast economic indicators related to labour, consumption and production, the number of initial jobless claims on the third and fourth weeks of March was 3.283 million and 6.648 million respectively, smashing former records, and consumer sentiment fell in March by the fourth largest amount ever month-on-month (Chart 1). In addition, there has been a significant fall across the manufacturing business conditions indices of each district's Federal Reserve Bank (Chart 2). More and more businesses are refraining from economic activities or have placed pronounced restrictions on their business. For example, one by one, major automobile manufacturers have halted their production activities in the US, and auto production levels are said to have fallen to around 20% of normal. When it comes to policy, there appears to have been swift action taken in anticipation of this situation; over the course of their three emergency Federal Open Market Committee (FOMC) meetings in March, the Federal Reserve Board (FRB) decided a series of monetary policies which include lowering interest rates a total of 150 bps and the US senate also passed a USD 2 trillion economic package (approximately 10% of nominal GDP).

Looking ahead, with a series of policies underpinning businesses' financing and household incomes, a worsening of the labour situation and corporate bankruptcies may be curbed to some extent. However, it is inevitable that public health measures to restrict the spread of Covid 19 will directly limit economic activities, and business activities and investment appetite are expected to cool. Even if the pandemic hits its peak before mid-2020, it is likely that economic activities – particularly spending on services – will take time to return to normal due to concerns about another spread of infection. The real GDP growth rate forecasts for the January-March and April-June quarters have fallen significantly to -8.1% QoQ annualised and -31.5% QoQ annualised respectively and although there is the possibility of double-digit QoQ annualised growth rates for the subsequent quarters this year with an economic normalisation

process, negative growth for 2020 is thought to be unavoidable and the forecast for the year stands at around -5% YoY.

Chart 1: Labour and Consumption-Related Economic Indicators

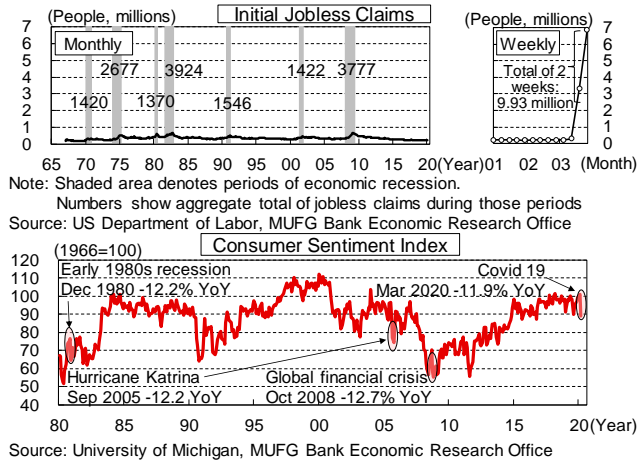
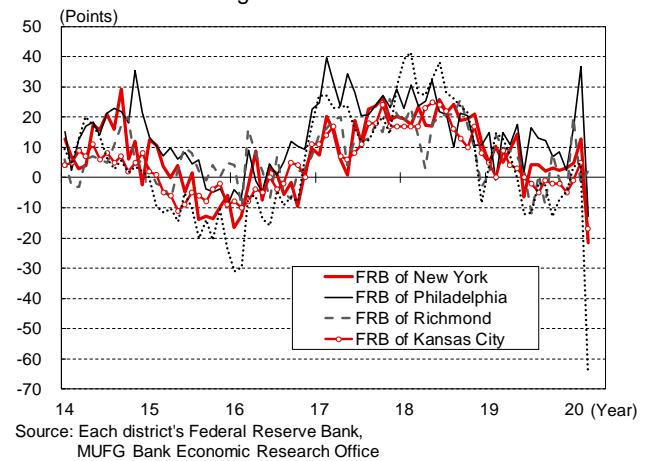


Chart 2: District Federal Reserve Banks' Manufacturing Business Conditions Indices



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