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U.S. Economic Outlook

Third Quarter 2020

UNITED NATIONS

ECLAC

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Highlights

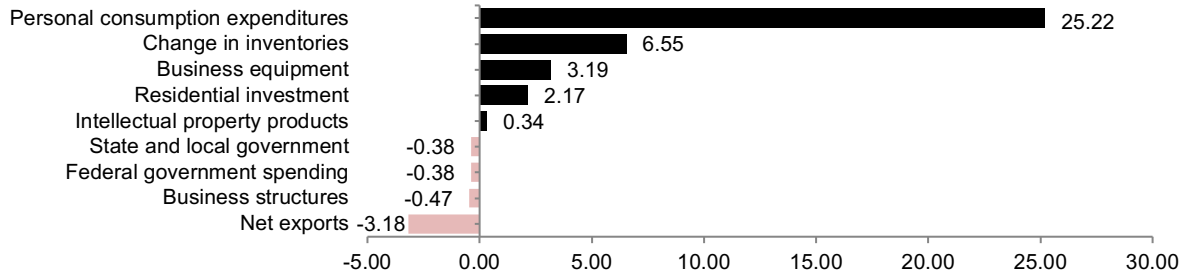
- The U.S. economy expanded at a 33.1% annual rate in the third quarter of 2020, following a decline of 31.4% in the second quarter and 5% in the first. The third-quarter gain reversed about 75% of the prior decline. The pandemic has created unprecedented volatility in economic growth this year, with the record-shattering decline in real GDP in the second quarter followed by a similarly record-breaking gain in the third.
- Economic forecasts project a slowdown in the final quarter of the year, however, because of the recent surge in COVID-19 cases and some tighter restrictions that have been implemented to contain the spread of the virus. There is already some evidence that the labor market has begun to weaken. The slowdown in the pace of non-farm payroll gains to 245,000 in November underlines how the renewed surge in virus cases and restrictions is weighing on services demand, as the sharp rise in coronavirus cases since October poses downside risks to the consumer recovery.
- The economic policy response was prompt and strong in the early phase of the pandemic (equivalent to 13% of GDP). According to the Brookings Institution's Hutchins Center Fiscal Impact Measure, fiscal policy added 14.1 and 5.4 percentage points to real GDP growth in the second and third quarters, respectively. The size and content of another fiscal package of still much needed relief measures is currently under discussion.
- The economic outlook remains challenging for the winter months, as it depends on containing the spread of the virus to avoid stricter restrictions, and on new policy measures to support the economy. However, encouraging news regarding the development of effective vaccines, which are expected to be more widely available in the course of next year, have led to upgrades in economic growth projections for the second half of 2021.

Overview

The U.S. economy grew at a strong pace in the third quarter. As a result, the recession caused by the COVID-19 pandemic was the shortest on record, but also the most severe, as it wiped out a decade's worth of job creation in the span of three months. Although the third-quarter GDP rebound was record-breaking, it did not fully reverse the initial massive decline, leaving real GDP 2.2% below its first-quarter level, according to data from the Bureau of Economic Analysis of the U.S. Department of Commerce.

The third-quarter rebound was primarily driven by consumer spending, which increased by 40.6%, pushing private consumption to just 1.5% below first-quarter levels. Consumer spending contributed 25.22% to growth in the third quarter (chart 1), after subtracting 24% from second-quarter growth. This resilience in consumer spending was supported by the sizeable fiscal and monetary stimulus that was injected into the economy and the release of some pent-up demand from the second quarter, when lockdown measures were in place. Residential investment also soared in the third quarter, rising by 62.3%, as some household spending in segments of the labor force that have experienced fewer job losses, particularly knowledge workers, was redirected from travel, hospitality and leisure into investment in homes and vehicles.[1]

CHART 1:
CONTRIBUTIONS TO U.S. GROWTH: Q3 2020
(Percentage change at annual rate)



Source: ECLAC Washington Office based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

[1] The Economist Intelligence Unit, *United States Country Report*, 1 December 2020, p.8.

Strength in the third quarter was widespread, with gains not only in consumer spending and residential investment, but also in most investment components, exports, and inventories. Government spending and imports were offsets. Inventories added 6.55% after subtracting 3.5% points in the second quarter. Fixed investment contributed 5.2%. While structures were a slight drag, other investment components contributed to third-quarter growth. Trade subtracted 3.2% from growth as exports surged less strongly than imports. Finally, government spending subtracted 0.8% from growth in the quarter.

Economic forecasts project a slowdown in the final quarter of the year, however, because of the recent surge in COVID-19 cases and some tighter restrictions that have been implemented to contain the spread of the virus. There is already some evidence that the labor market has begun to weaken. The slowdown in the pace of non-farm payroll gains to 245,000 in November from 610,000 in October, underlines how the renewed surge in virus cases and restrictions is weighing on services demand. Non-farm payroll gains in the services sector fell to 190,000 in November from 503,000 in October. Unemployment rate, calculated from the household survey, continued to fall in November, to 6.7%. However, the improvement was caused by labor force departures (labor force participation declined to 61.5% in November, from 61.7% in October).

As of early December, market forecasters projected growth of 4.0% in the fourth quarter and of 2.9% in the first quarter of 2021, on average (table 1). The expected GDP growth in the fourth quarter ranges from 2.8% (JPMorgan) to 6.0% (National Association of Realtors). In the first quarter of 2021, it ranges from -1.0% (JPMorgan) to 6.0% (National Association of Realtors). However, as highly effective vaccines are rolled out and restrictions on activity are eased, forecasters expect GDP growth to become stronger in the second half of next year. On an annual basis, market projections point to a decline of 3.7% in 2020 on average, and growth of 3.7% in 2021 (table 2)

TABLE 1:
QUARTERLY FORECASTS FOR U.S. ECONOMIC GROWTH

	Q4 2020 (qoq)	Q1 2021 (qoq)	Q2 2021 (qoq)	Date of Forecast
What Markets Say				
Bank of America/Merrill Lynch	4.0%	1.0%	7.0%	1-Dec-20
Capital Economics	4.5%	3.8%	3.9%	25-Nov-20
JPMorgan	2.8%	-1.0%	4.5%	27-Nov-20
Moody's Economy.com	3.0%	3.6%	3.8%	9-Nov-20
Mortgage Bankers Association	3.9%	3.2%	3.3%	16-Nov-20
National Association of Realtors	6.0%	6.0%	4.0%	Nov-20
National Bank of Canada	3.6%	2.2%	2.1%	Nov-20
Wells Fargo/Wachovia	4.5%	4.0%	3.1%	10-Nov-20
Forecasts average	***4.0%***	***2.9%***	***4.0%***	

Source: ECLAC Washington Office, based on several market sources.

For historical context, it took about three years for real GDP to recover what it lost in the Great Recession caused by the 2008 financial crisis, according to Moody's. When it comes to recovery period, this time the Federal Reserve has been able to largely insulate the financial system from the turmoil in the economy. However, U.S. fiscal policy is on track to go from highly accommodative to restrictive unless lawmakers agree on a new fiscal package, as many fiscal support measures will expire at year's end.[2]

[2] Moody's Analytics, *Road to Recovery,* 30 November 2020.

TABLE 2:
ANNUAL FORECASTS FOR U.S. ECONOMIC GROWTH

	Real GDP (% change, y/y)		CPI (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		
	2020	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**Date of Forecast**
A. What Government Agencies Say									
FED*	-3.7%	4.0%	1.2%	1.7%	7.6%	5.5%	0.1%	0.1%	*Sep-20*
CBO	-5.8%	4.0%	0.9%	1.2%	10.6%	8.4%	0.4%	0.1%	*Jul-20*
Administration (Office of Management and Budget)	3.1%	3.0%	2.3%	2.3%	3.5%	3.6%	*na*	*na*	*Feb-20*
B. What Markets Say									
Bank of America/Merrill Lynch	-3.5%	4.5%	1.2%	1.9%	8.0%	5.5%	0.13%	0.13%	*1-Dec-20*
Capital Economics	-3.5%	4.5%	1.3%	2.5%	8.3%	5.8%	0.1%	0.1%	*25-Nov-20*
JPMorgan	-3.6%	3.3%	1.2%	1.8%	8.2%	6.4%	0.25%	0.25%	*27-Nov-20*
Moody's Economy.com	-3.6%	4.1%	1.2%	1.8%	8.2%	7.4%	0.4%	0.1%	*9-Nov-20*
Mortgage Bankers Association	-2.5%	3.0%	2.4%	2.8%	8.1%	5.5%	0.125%	0.125%	*16-Nov-20*
National Association of Realtors	-5.0%	4.0%	1.1%	1.8%	8.1%	6.2%	0.4%	0.1%	*Nov-20*
National Bank of Canada	-3.6%	3.2%	1.2%	1.9%	8.2%	7.0%	0.25%	0.25%	*Nov-20*
TD Bank Financial Group	-4.0%	3.4%	1.7%	2.2%	8.5%	7.3%	0.25%	0.25%	*17-Sep-20*
The Economist Intelligence Unit	-3.8%	3.2%	1.2%	1.5%	8.5%	6.7%	0.1%	0.1%	*1-Dec-20*
Wells Fargo/Wachovia	-3.5%	4.2%	1.2%	1.9%	8.1%	6.3%	0.25%	0.25%	*10-Nov-20*
Market Average	***-3.7%***	***3.7%***	***1.4%***	***2.0%***	***8.2%***	***6.4%***	***0.2%***	***0.2%***	
C. What International Organizations Say									
United Nations DESA (Baseline)	-6.5%	2.1%	*na*	*na*	*na*	*na*	*na*	*na*	*May-20*
World Bank	-6.1%	4.0%	*na*	*na*	*na*	*na*	*na*	*na*	*Jun-20*
OECD*	-3.7%	3.2%	1.2%	1.2%	8.1%	6.4%	*na*	*na*	*Dec-20*
IMF	-4.3%	3.1%	*na*	*na*	*na*	*na*	*na*	*na*	*Oct-20*

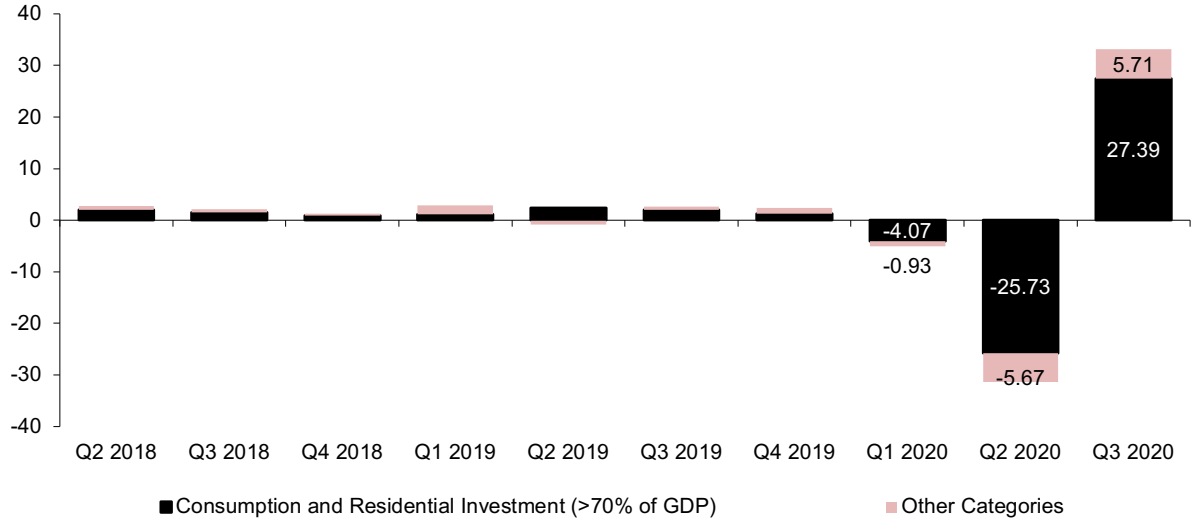
`Source: ECLAC Washington Office based on official and market sources.
Note: FED: Federal Reserve; CBO: Congressional Budget Office; OMB: Office of Management and Budget (U.S. Administration's forecasts).
*Forecast for PCE inflation.

I. Quarterly developments

The real GDP expansion in the third quarter reflected increases in personal consumption expenditures (PCE), private inventory investment, exports, nonresidential fixed investment, and residential fixed investment that were partly offset by decreases in federal government spending (reflecting fewer fees paid to administer the Paycheck Protection Program loans) and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The core of the U.S. economy —consumption and residential investment— added 27.39% to growth in the third quarter (chart 2), with consumption alone contributing 25.22% to third-quarter growth.

CHART 2:
CONTRIBUTIONS TO U.S. REAL GDP GROWTH
(Percentage Points)

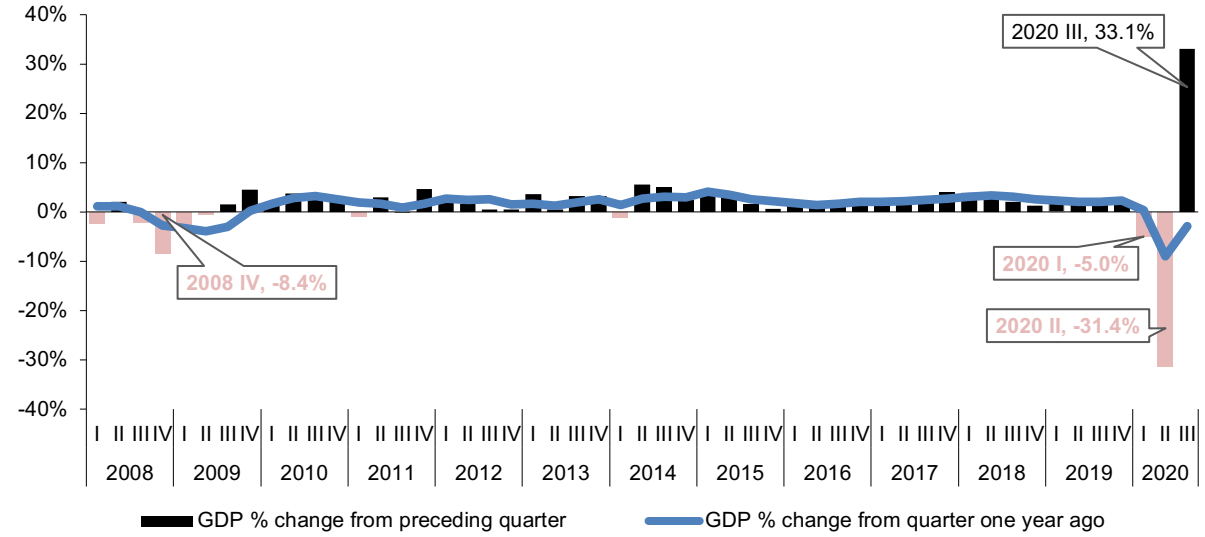


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

A. Quarterly GDP Growth

The brunt of the coronavirus crisis was felt in the second quarter. According to the second estimate released by the U.S. Department of Commerce on 25 November 2020, the U.S. economy expanded at an annual rate of 33.1% in the third quarter of 2020, the fastest quarterly pace ever (chart 3).

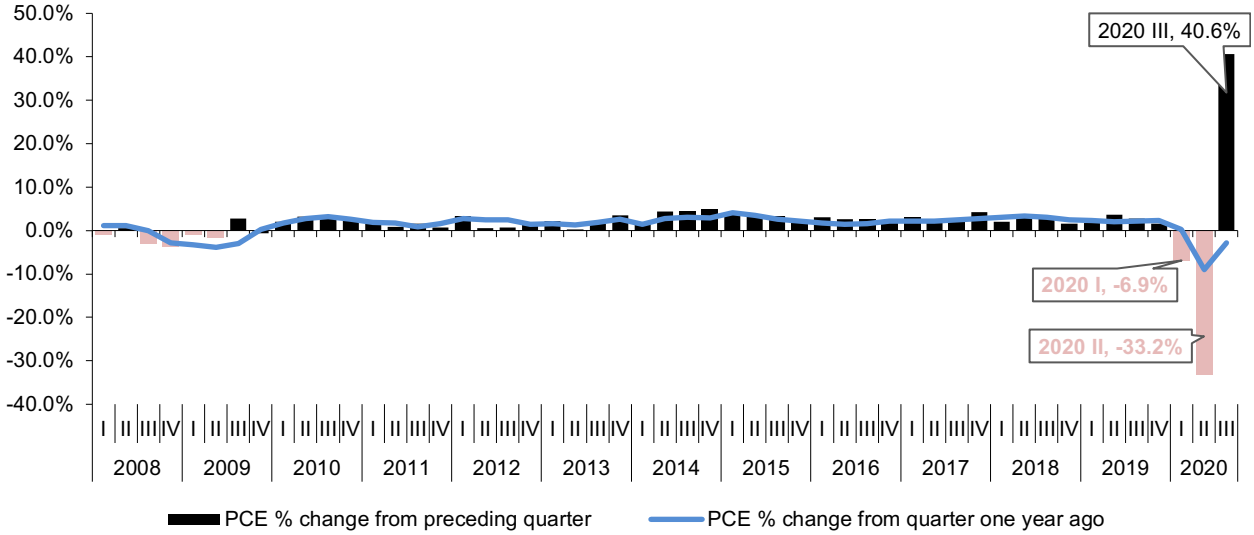
CHART 3:
U.S. REAL GDP: QUARTERLY GROWTH
(Percentage Points)



Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Private consumption expenditure increased by 40.6% (chart 4), adding 25.2% to growth in the third-quarter. The increase in PCE reflected increases in services (led by health care as well as food services and accommodations)), with service spending contributing 15.7% to the gain, and goods (led by clothing and footwear as well as motor vehicles and parts).

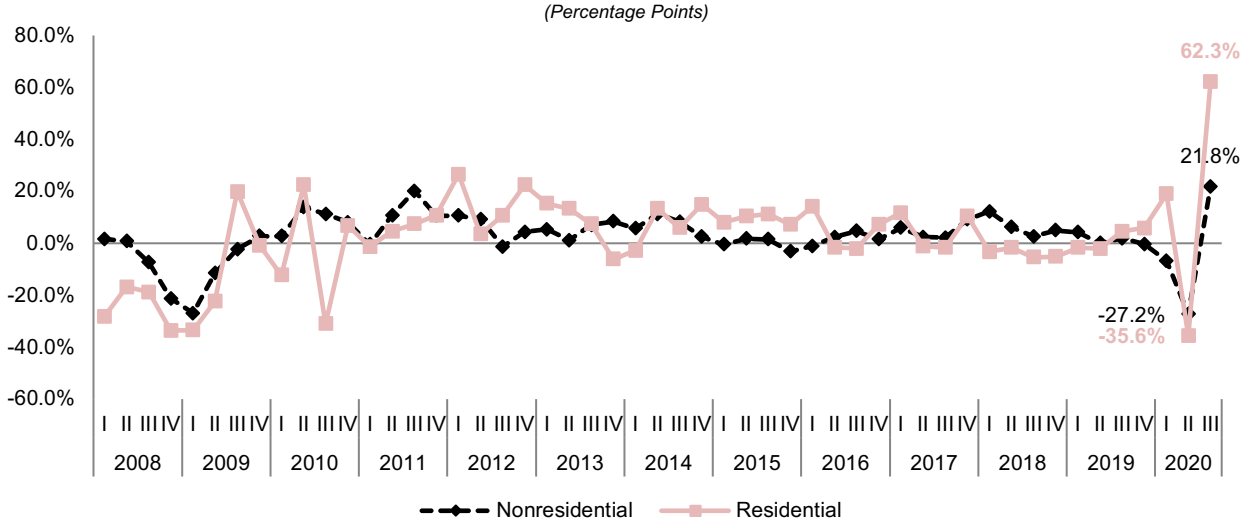
CHART 4:
PERSONAL CONSUMPTION EXPENDITURE: QUARTERLY GROWTH
(Percentage Points)



Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

In line with the increase in consumer demand, gross private domestic investment grew by almost 85% and added 11.8% to growth in the third quarter. Fixed investment increased by 30.4%, with residential and non-residential investment growing by 62.3% and 21.8%, respectively, and together adding 5.2% to growth (chart 5). The change in private inventories added 6.6%.

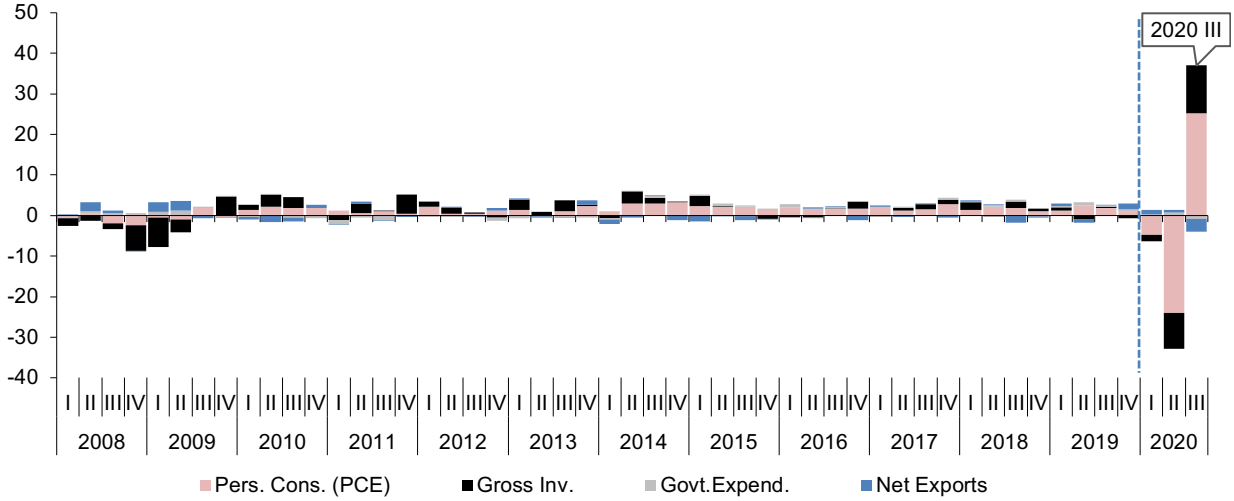
CHART 5:
GROSS PRIVATE DOMESTIC INVESTMENT: QUARTERLY GROWTH
(Percentage Points)



Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Overall, government spending contracted 4.9%, and subtracted 0.76% from growth in the third quarter, with funding from the CARES Act rescue slowly receding as fiscal measures expire. State and local government spending declined by 4.0%, while federal outlays declined by 6.2% (with national defense increasing 3.1% and nondefense spending contracting 18.1%). Finally, net exports subtracted 3.18% from growth in the third quarter. Exports increased by 60.5%, primarily reflecting an increase in the exports of goods (led by automotive vehicles, engines, and parts as well as capital goods), adding 4.95% to growth. Imports grew by 93.1%, subtracting 8.12% from growth in the quarter (chart 6).

CHART 6:
CONTRIBUTIONS TO REAL GDP GROWTH
(Percentage Points)

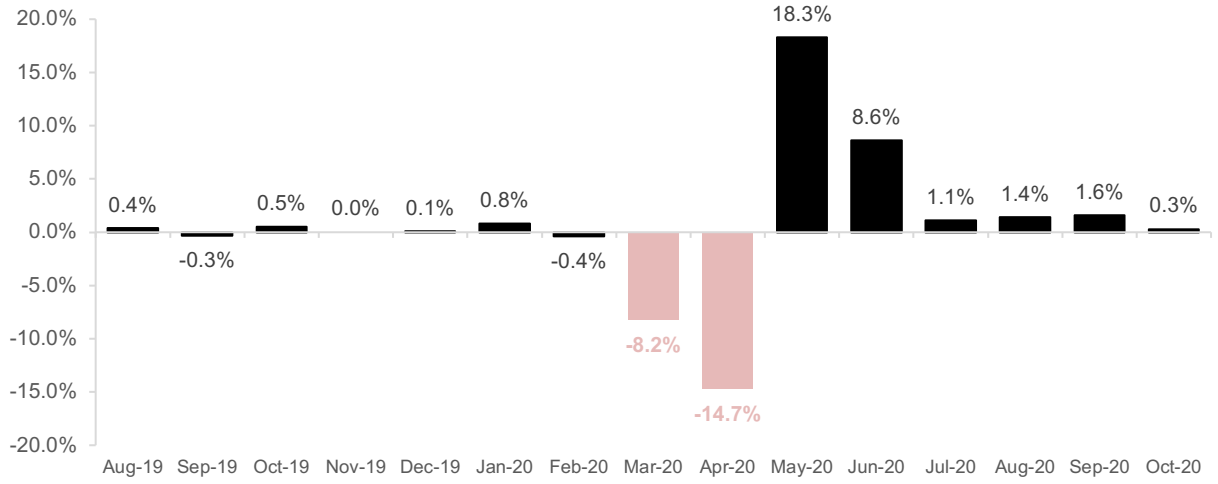


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

B. Retail sales

Retail sales, a measure of purchases at stores, restaurants and online, rose a seasonally adjusted 0.3% in October from a month earlier, according to the Commerce Department. That was well below a 1.6% increase in September, and it marked the smallest monthly rise in retail sales since May, when spending rebounded from sharp declines in the early phase of the pandemic (chart 7). While spending on vehicles, electronics and at home-improvement stores increased in October, sales slipped in key categories such as grocery store, clothing and restaurant spending. This is another sign the United States' economic recovery is losing steam as coronavirus cases surge across the country, prompting some officials to impose new restrictions, mask mandates and other mitigation strategies to slow its spread. According to Moody's, in aggregate, sales are above where they started the year, and year-ago growth actually exceeds early-2020 rates despite the job losses and plunge in confidence.

CHART 7:
U.S. TOTAL RETAIL SALES
(Seasonally adjusted, Month to month percentage change)



Source: ECLAC Washington Office, based on data from Advance Monthly Sales for Retail and Food Services), U.S. Census Bureau.

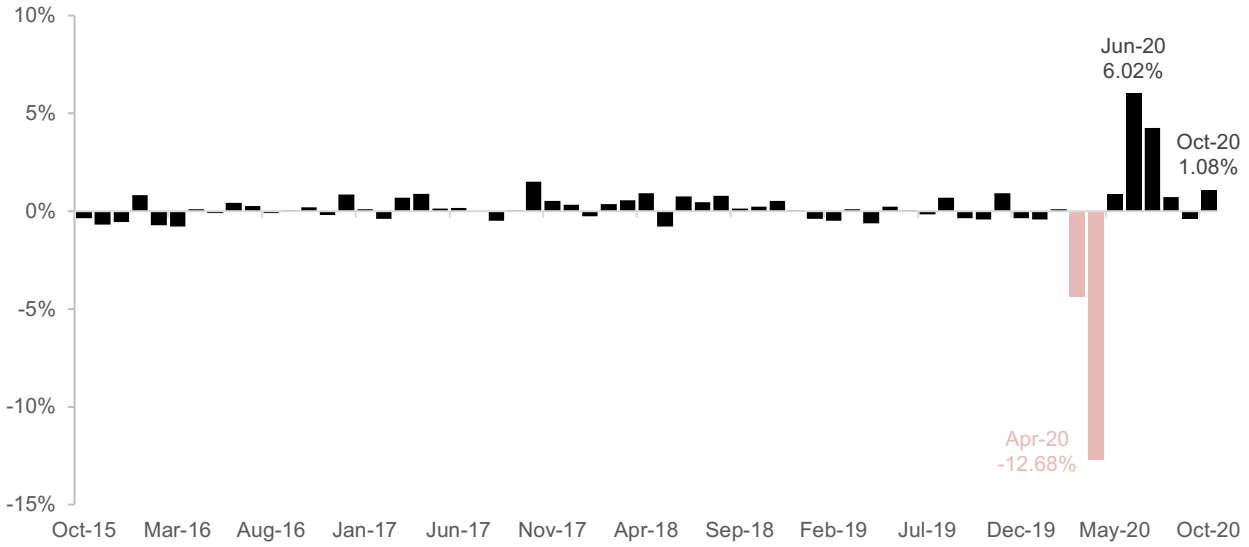
C. Industrial production

U.S. industrial production rose in October, as output continued its slow climb back from deep declines last spring due to pandemic-related shutdowns. The Federal Reserve's index of industrial production—a measure of output at factories, mines and utilities—rose a seasonally adjusted 1.1% in October, following a revised 0.4% decline in September (chart 8). Output remains 5.6% below where it was in February, before the coronavirus pandemic hit, the Fed said.

Industrial production fell at a record pace in the spring as factories were closed to halt the spread of the coronavirus. The Fed's index plunged in March and April before rebounding in June and July. Growth since has been more muted. Economists said they expect to see production continue to make up lost ground in the coming months since demand for goods has held up better than demand for services. But the alarming rise in new coronavirus cases around the country could slow that expansion.

Manufacturing, the biggest component of production, rose 1%, after a 0.1% increase in September. Utility production rose 3.9%, the Fed said. Mining output fell 0.6% and remains 14.4% below its level a year ago. Capacity utilization, a measure of slack in the industrial economy, rose to 72.8% in October from a revised 72% in September.

CHART 8:
U.S. INDUSTRIAL PRODUCTION
(Seasonally adjusted, Month to month percentage change)

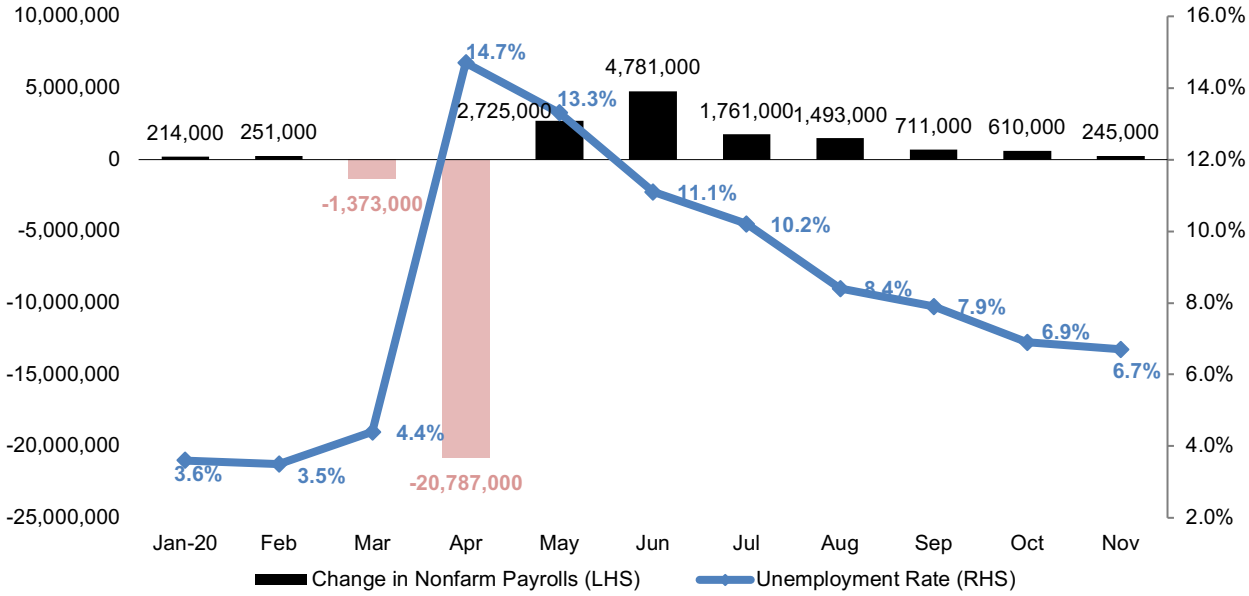


Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve and the Federal Reserve of St. Louis (FRED).

D. Labor market

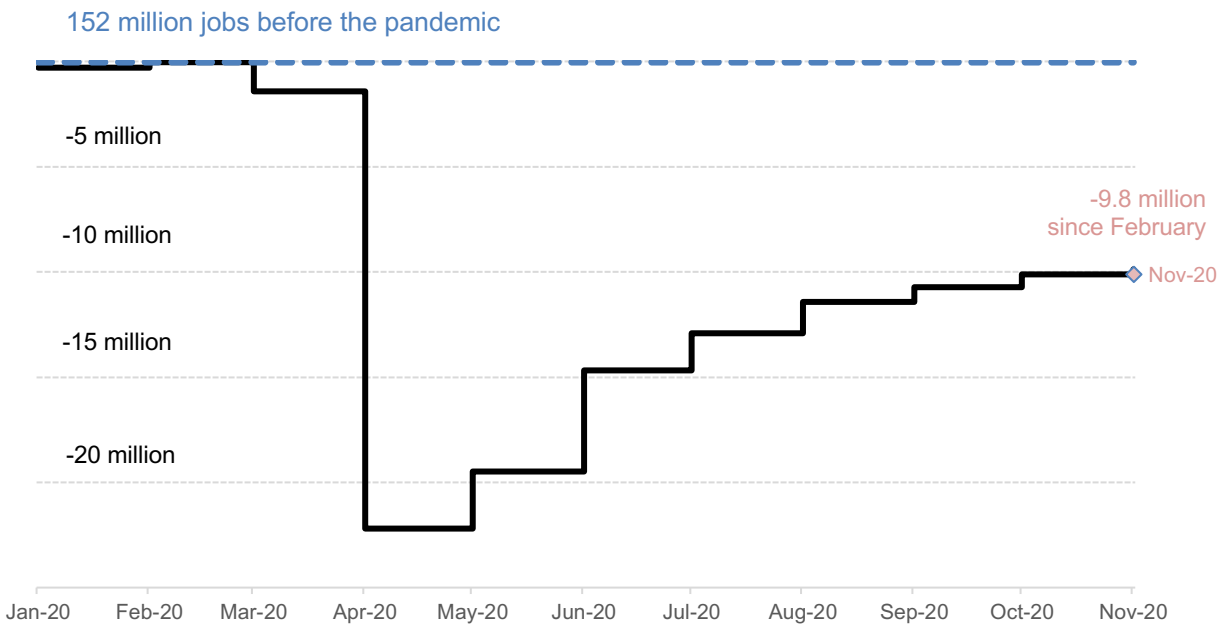
The U.S. economy added 245,000 jobs in November, fewer than half the number created in October. The pace of hiring has now diminished for five straight months (chart 9). While many of those who lost a job early in the pandemic have been rehired, there are roughly 10 million fewer jobs than there were in February (chart 10). Many of the unemployed may lose the benefits that have sustained them, as the emergency assistance approved by Congress last spring is set to expire at the end of the year.

CHART 9:
THE U.S. LABOR MARKET: MONTHLY JOB CREATION AND UNEMPLOYMENT RATE
(Average Monthly Job Growth (left axis); Percentage Points (right axis))



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

CHART 10:
CUMULATIVE LOSS OF JOBS SINCE THE BEGINNING OF THE PANDEMIC
(Average Monthly Job Growth)



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

Private services gained only 289,000 jobs, down from 770,000. Weakness was widespread, but especially in retail and leisure/hospitality. Government employment declined for a third consecutive month as the decennial census efforts have been winding down, state payrolls were flat and local government payrolls have continued to decline. The recovery of state and local government jobs is expected to take longer than for private sector jobs due to the stress caused by the pandemic on state and local budgets.

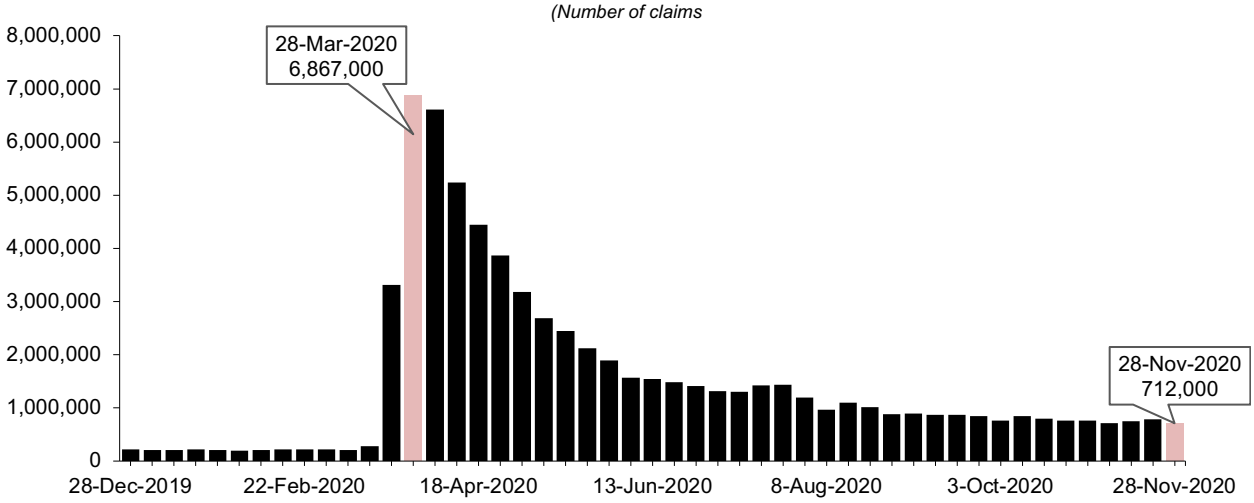
The number of workers unemployed more than half a year (long-term unemployed) increased from 3.56 million to 3.94 million and the number of discouraged workers, those leaving the labor force due to poor job prospects, is climbing.

The unemployment rate fell 0.2 percentage point to 6.7%, but this was primarily because of a contraction in the labor force to 61.5% in November from 61.7% in October; this is 1.9 percentage points below its February level, leaving participation in 2020 overall at its lowest levels since the late 1970s. The employment-population ratio, at 57.3%, changed little over the month but is 3.8 percentage points lower than in February.

Despite a steady decline since reaching a peak at the end of March, first-time claims for unemployment aid in the U.S. are still very high by historical standards. There were 712,000 new applications for jobless aid on a seasonally adjusted basis for the week ending on 28 November, a number that it is still above the peak seen in past recessions, what highlights the economic impact of the COVID-19 crisis on the labor market (chart 11).

The November employment report shows that the labor market is losing momentum. The initial phase of the recovery has mostly run its course, and the next phase is expected to be more difficult, given the alarming escalation of COVID-19 infections. The initial bounce in employment was driven by recalled workers. Gains in the hard hit sectors of leisure/hospitality and retail have accounted for a disproportionate share of job additions in recent months. The strength of the next phase of the recovery, however, will depend on the path of the coronavirus infections and on the underlying strength of the economy.

CHART 11:
INITIAL UNEMPLOYMENT CLAIMS FILED WEEKLY
(Number of claims



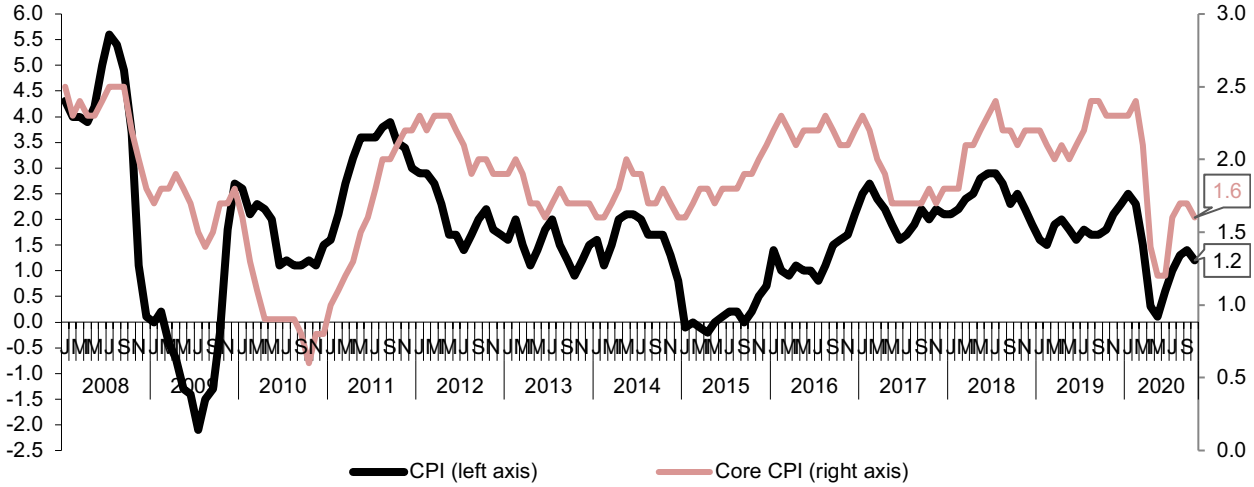
Source: ECLAC Washington, based on data from the Department of Labor unemployment insurance weekly claims report and the Federal Reserve of St. Louis (FRED).

E. Inflation

There was a rebound in inflation in the third quarter, in line with a partial recovery in consumer activity and rising global oil prices, but inflation remains modest. In October, the Consumer Price Index for All Urban Consumers (CPI-U) was unchanged on a seasonally adjusted basis, after rising 0.2% in September, 0.4% in August, and 0.6% in July, reflecting weak demand and plenty of slack across the economy as businesses and households navigate the coronavirus pandemic.

The all items index rose 1.2% for the 12 months ending October, a slightly smaller increase than the 1.4% rise for the 12-month period ending September. The index for all items less food and energy rose 1.6% over the last 12 months after rising 1.7% in September, reflecting continued subdued demand in the services sector (chart 12). With the increase in virus infection numbers likely to put further downward pressure on demand in the short-term, overall inflation is expected to remain subdued for a while yet.

CHART 12:
U.S. DOMESTIC PRICES: MONTHLY EVOLUTION
(12-month percent change)



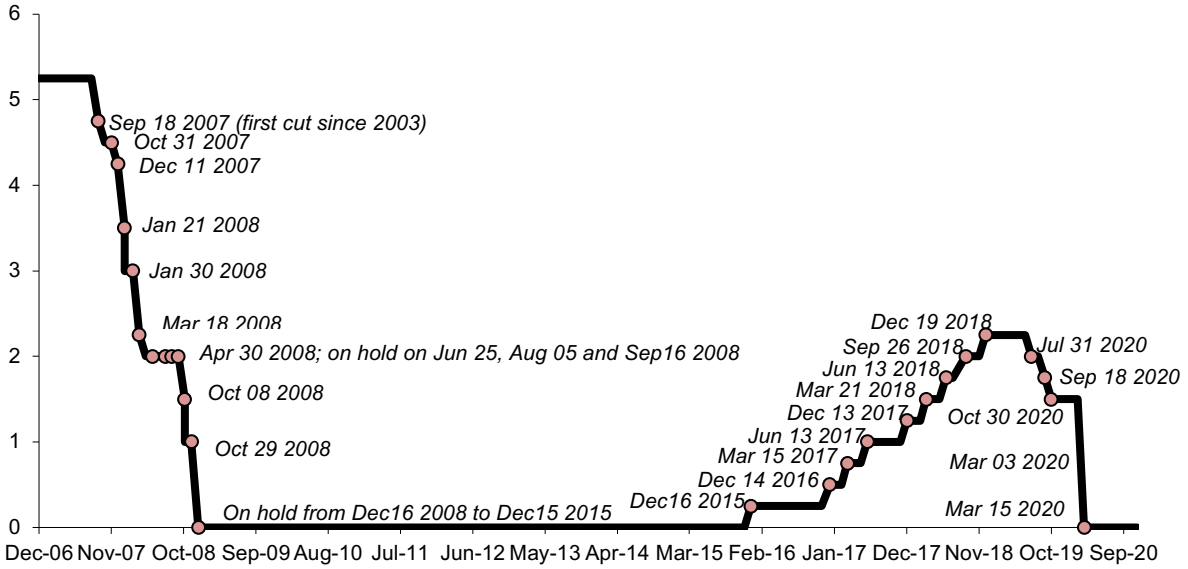
Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

The October CPI didn't alter forecasts for the path of the fed funds rate. With inflationary pressures still subdued, the Federal Reserve is expected to keep interest rates at the lower bound for a while.

F. Monetary policy

In its meeting on 5 November, the Federal Open Market Committee (FOMC) decided to keep the target range for the federal funds rate at 0-0.25% (chart 13) and said in its statement that it "expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time." In addition, the Committee said that "over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses." In the latest projections made in September, the majority of Fed officials expected the benchmark interest rate would stay at or near zero through 2023. The next FOMC meeting will take place on 15-16 December, when new economic projections will be released.

CHART 13:
U.S. FEDERAL FUNDS TARGET RATE
(Percentage)



Source: Eclac Washington Office, based on data from the U.S. Federal Reserve.

On 30 November, in a testimony prepared for delivery at a congressional hearing, Federal Reserve Chairman Jerome Powell said the central bank's actions to backstop a range of credit markets in the spring in response to the coronavirus pandemic had unlocked almost US$ 2 trillion to support businesses, cities and states. He added that the Fed's unprecedented steps to stabilize financial markets had largely succeeded in restoring the flow of credit from private lenders.

Earlier on the same day, the Fed announced the extension through next March of four backstop lending programs that helped stabilize short-term funding markets in the spring. They include the *Paycheck Protection Program Liquidity Facility*, which made more attractive for small banks to fund PPP loans, the *Commercial Paper Funding Facility*, which backed a critical market for short-term corporate debt, and the *Money Market Fund Liquidity Facility*, which backed money market mutual funds. The fourth program extended by the Fed is the *Primary Dealer Credit Facility*, which allows Wall Street banks the ability to pledge a broader range of collateral to the Federal Reserve.

However, on 19 November Treasury Secretary Steven Mnuchin declined to extend five other emergency lending programs put in place to repair credit markets.[3] Mr. Mnuchin offered three reasons for his decision: first, he said the programs are no longer needed because markets have healed; second, he added that he lacks the authority to extend the programs because he believes the Cares Act doesn't allow for them to continue; finally, he said the money would be better spent on other relief measures for which Congress can't agree on funding. In April, Mr. Mnuchin approved US$ 195 billion, or around US$ 3 for every US$ 7 Congress provided, for the five different programs – for corporate credit, municipal debt, asset-backed securities and the Main Street Lending program. Those programs had purchased around US$ 25 billion in assets through 25 November.

The Federal Reserve said it would have preferred the lending programs had stayed open because the pandemic emergency hasn't receded. It argued that even though most of the lending programs have seen little demand because market conditions have improved substantially, they are providing an important source of security should conditions worsen amid rising coronavirus cases.

G. Fiscal policy

The expiration of any remaining fiscal support is adding to the U.S. economy's problems. The U.S. Congress has passed five pieces of stimulus legislation in response to COVID-19: three fiscal packages and two supplementary measures. Together, they are equivalent to 13% of GDP. However, most of the previously approved fiscal programs are due to run out by the end of the year.

Extra unemployment benefits (the Coronavirus Aid, Relief, and Economic Security (CARES) Act supplemental payment of US$ 600 per week), and the Paycheck Protection Program (which offered loans to small businesses), expired at the end of July and in early August, respectively. By the end of the year, emergency pandemic-related unemployment insurance will end, leaving 12 million workers without a safety net. A payroll tax holiday that benefits mostly federal government workers will also expire at year's end, as will the employee retention tax credit for businesses. Student borrowers will need to resume making payments on their school loans in February, and some mortgage borrowers with loans from government-backed institutions will need to resume paying this spring. By March, Moody's estimates households will owe nearly US$ 115 billion in debt payments on student loans, mortgages, auto loans and credit cards that they have not made during the pandemic. The expiration of the Centers for Disease Control and Prevention's moratorium on rental evictions, is particularly concerning. Come January, approximately 11.4 million renter households will owe an average of just over US$ 6,000 in back rent, utilities and late fees, together totaling US$ 70 billion.[4]

The weakening economy and prospect that millions of Americans will lose their homes without a safety net in coming weeks has reenergized negotiations in Washington D.C. over another fiscal rescue package. A bipartisan group of senators unveiled a US$ 908 billion rescue package on 1 December, which would provide US$ 288 billion to small businesses, US$ 180 billion in enhanced unemployment compensation, and US$ 160 billion to help state and local governments with their budget shortfalls among several other provisions from transportation and healthcare to rental assistance (table 3). The deal represents a compromise, with the Democratic leadership, including President-elect Biden, endorsing the US$ 908 billion proposal as an appropriate starting point for renewed talks, a major concession from Democrats' prior call for more than US$ 2 trillion in relief, while also nearly doubling the cost of the US$ 500 billion "skinny" GOP relief bill that failed to advance in the Senate on 10 September.

[3] The Federal Reserve Act allows the central bank to extend emergency loans by citing "unusual and exigent" circumstances. These loans sometimes are referred to as "13(3) loans," after the relevant section of the Act. Since 2010, however, the United States Congress requires that the Treasury Secretary approve any new emergency loan program in the future.

[4] Mark Zandi, "This Week in the COVID Crisis" *Moody's Analytics*, 6 December 2020.

TABLE 3:
BIPARTISAN COVID EMERGENCY RELIEF FRAMEWORK
(US$ Billion)

Provisions	2021	2022	2023	2024	2021-2024
Small business support (PPP, EIDL, restaurants, deductibility)	280.1	7.9	0.0	0.0	**288.0**
Additional unemployment insurance	180.0	0.0	0.0	0.0	**180.0**
State, Local, and Tribal Governments	160.0	0.0	0.0	0.0	**160.0**
Education	38.3	24.1	11.1	5.3	**78.8**
Transportation (Airlines, Airports, Buses, Transit and Amtrak)	37.3	5.9	1.8	0.0	**45.0**
Healthcare Provider Relief	24.3	9.6	0.9	0.3	**35.0**
Rental House Assistance	11.1	8.5	4.4	1.0	**25.0**
Vaccine Development and Distribution & Testing and Trading	11.1	4.4	0.4	0.1	**16.0**
Nutrition/Agriculture	9.0	1.9	1.9	1.9	**14.7**
CDFI/MDI Community Lender Support	6.2	4.3	1.4	0.0	**12.0**
U.S. Postal Service	3.9	4.5	1.6	0.0	**10.0**
Broadband	2.8	5.5	1.3	0.4	**10.0**
Childcare	6.0	3.0	0.8	0.2	**9.9**
Opioid Treatment	1.2	2.7	0.7	0.3	**4.9**
Student Loans	4.0	0.0	0.0	0.0	**4.0**
Total	**775.2**	**82.3**	**26.2**	**9.5**	**893.4**

Source: Moody's Analytics.

H. Financial conditions

Stock markets have been rallying even though the second coronavirus wave is unravelling some of the tentative recovery from the March shock. The combination of loose monetary policy and substantial fiscal spending since the beginning of the pandemic crisis has been a catalyst for equity and credit markets since March. Despite a dramatic fall in the first quarter, stock prices recovered in the second and third quarters. Year-to-date (as of end of November), the Dow Jones Industrial Average, the S&P 500 and NASDAQ gained 4%, 12% and 36%, respectively (table 4).

TABLE 4:
STOCK PRICES
(Percentage change)

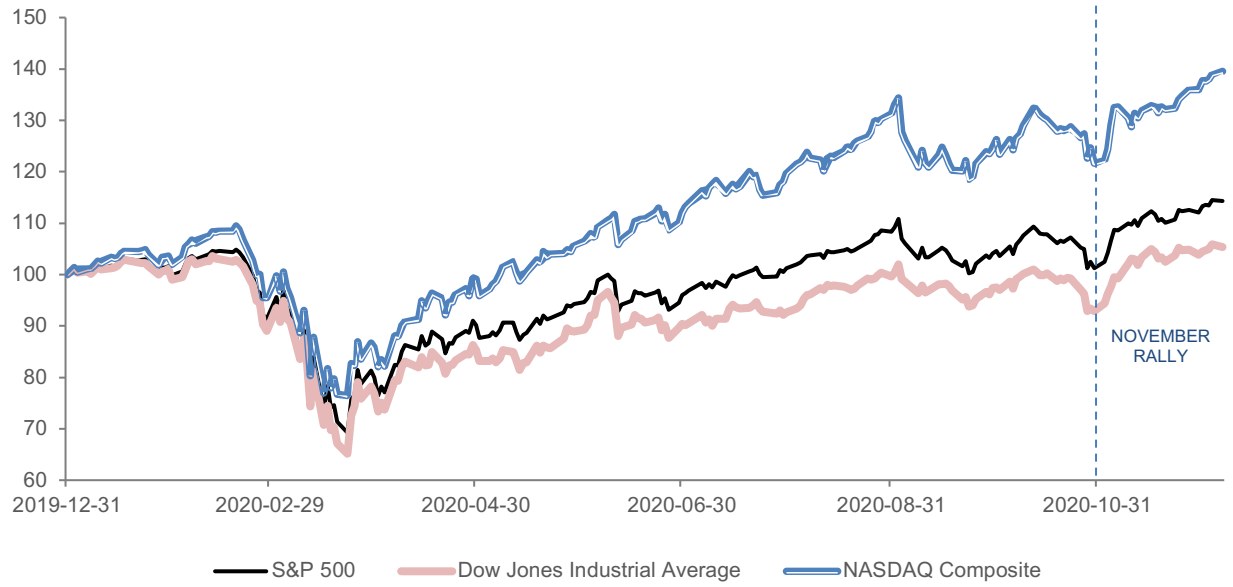
	Dow Jones Industrial Average	S&P 500	Nasdaq
Q1 2020	-23%	-20%	-14%
Q2 2020	18%	20%	31%
Q3 2020	8%	8%	11%
2020 YTD	4%	12%	36%

Source: ECLAC Washington Office, based on data on Monthly Stock Prices, Economic Indicators, U.S. Government; YTD: as of 15 September.

Disruptive technologies got a big boost as a result of stay-at-home orders due to the pandemic. Stocks with real, or perceived, exposure to the cloud, digital payments, electric vehicles, plant-based food, or anything related to the stay-at-home economy have increased dramatically. That's why the NASDAQ index has shown the biggest gain this year so far. On 24 November, however, the Dow Jones Industrial Average jumped past 30,000 for the first time, the latest milestone in a postelection rally that has been magnified by the promising results from three potential coronavirus vaccines.

The news of the emergence of several credible, effective coronavirus vaccines triggered a burst of optimism in November (chart 14). The current stage of the rally has been powered by stocks that have been largely left behind during the pandemic, such as energy stocks, airlines, hotel groups and smaller U.S. companies. Investors see the global economy poised for a powerful rebound in 2021, as the pandemic recedes but aggressive stimulus continue. The impact of easy monetary policy, including very low interest rates – and the prospect of it continuing for years to come – remains a dominant driver.

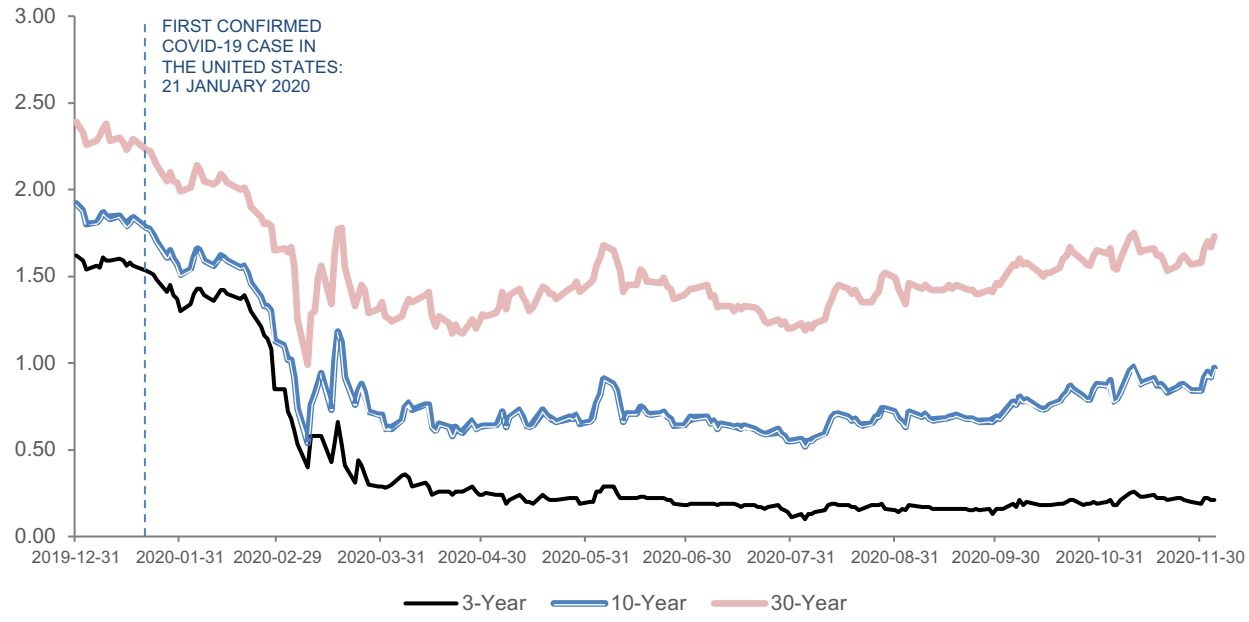
CHART 14:
U.S. STOCK MARKET INDICES
(Daily, Not Seasonally Adjusted)



Source: ECLAC Washington Office, based on data from the Federal Reserve of St. Louis (FRED).

U.S. Treasury security yields have declined this year, with demand for safe Treasury assets increasing sharply as volatility and uncertainty spiked (chart15). The decline in short-term Treasury yields was sharper than the declines in longer treasury maturities. Year-to-date (as end of November), the 3-year, 10-year and 30-year treasury yields fell 88%, 56% and 34%, respectively (table 4).

CHART 15:
U.S. TREASURY SECURITY YIELDS
(Constant Maturities; Daily Yields)



Source: ECLAC Washington Office, based on data from the Federal Reserve of St. Louis (FRED).

TABLE 4:
U.S. TREASURY SECURITY YIELDS
(Percentage change)

	3-year	10-year	30-year
Q1 2020	-82%	-64%	-44%
Q2 2020	-38%	-6%	4%
Q3 2020	-89%	-66%	-41%
2020 YTD	-90%	-65%	-40%

Source: ECLAC Washington Office, based on data on Monthly Yields, Constant Maturities, Economic Indicators, U.S. Government; YTD: as of 15 September.

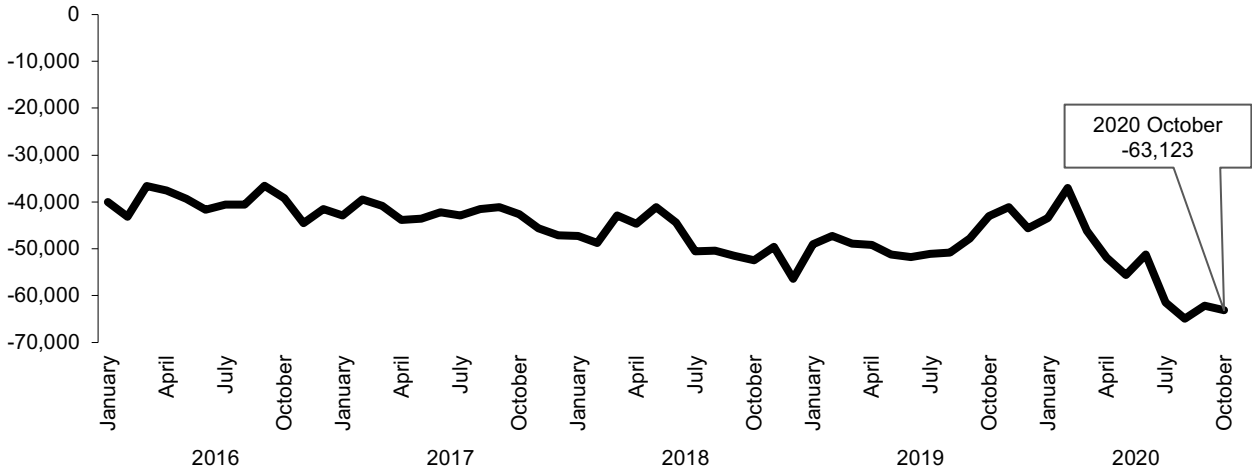
Some investors are betting that the Federal Reserve could start buying more long-term U.S. Treasury securities as soon as its next policy meeting on 15-16 December, a trend that has kept yields from rising higher. The outcome of the November 3 election, which resulted in the strong possibility of divided government in Washington, left investors thinking the Federal Reserve might need to assume more responsibility to support the economy. Treasury Secretary Steven Mnuchin's decision to not extend several emergency Fed lending programs beyond 31 December also left the Fed with fewer alternatives to Treasury purchases for economic stimulus. Buying bonds helps boost the economy by reducing longer-term Treasury yields, lowering the costs of borrowing for individuals and businesses.

Finally, companies across the United States have issued record amounts of debt in 2020, which is on track to be the year with the most corporate bond issuance ever. They have taken advantage of low borrowing costs to extend the maturity of their debt and sell longer dated bonds to investors searching for yield. The bond binge has taken hold ever since the Federal Reserve cut interest rates to near zero and announced measures to prop up corporate debt in March. Companies are expected to issue fewer bonds in 2021 and some are even expected to use their cash to retire outstanding debt.

I. External sector

The U.S. nominal trade deficit widened less than expected in October, the latest data available. It is wider than its third-quarter average, so net exports will likely be a drag on GDP growth in the fourth quarter. The nominal trade deficit widened from US$ 62.08 billion in September to US$ 63.1 billion in October. Nominal imports were up 2.1% in October after rising 0.6% in September. Nominal exports were up 2.2% in October, compared with the 2.4% gain in September.

CHART 14:
U.S. BALANCE ON GOODS AND SERVICES TRADE
(Monthly, US$ Million)



Source: U.S. Census Bureau and the Bureau of Economic Analysis, U.S. Commerce Department.

There are a few factors behind the widening in the nominal trade deficit over the past several months. The U.S. dollar is strong by historical standards, which supports more imports but weighs on exports. Inventories also need to be rebuilt, and inventory-to-sales ratio is at an all-time low. This partly reflects the substantial shift to online retailing during the pandemic, but once retailers are able to operate at full strength, they will need to restock. Their effort could add more than 1 additional percentage point to GDP growth next year, according to Moody's, even though it could keep the nominal trade deficit wide. Finally, the trade deficit also remains wide because travel exports have remained weak. These exports will be very slow to recover until a vaccine is widely distributed. U.S. import demand may recover more quickly than exports, as a result, which will continue to be held back by the struggling aviation and oil and gas sectors.

II. Impact on financial conditions: Latin America and the Caribbean

The improved market liquidity created by the U.S. Federal Reserve and the European Central Bank since March has offered relief to Latin American and the Caribbean (LAC) sovereign and corporate issuers in the first nine months of 2020. Although governments in the region are still dealing with the urgency of the COVID-19 crisis, financial conditions have shown signs of stabilization since end of March. In March, the region experienced increasing interest rates and capital flight. By May, these trends had reversed as the U.S. Federal Reserve's and the European Central Bank's policies stabilized the markets. With a backdrop of low global interest rates and borrowing costs, Latin American and Caribbean (LAC) sovereign and corporate borrowers placed US$ 118 billion worth of bonds from January to September 2020.

Latin American equities recovered some ground since a sharp fall in March, sparked by the COVID-19 pandemic, but still remain significantly below the levels at the start of the year. The MSCI Latin American index was down 37% by the end of September, but up 32% since the recent bottom reached on 23 March, its weakest point in just over 15 years. The emerging market index performed better and was down only 3%, while the G7 index was up 1%. They were up 43% and 49%, respectively, since 23 March.

Latin American equities underperformed in part due to currency depreciation, as well as the impact of the pandemic and the oil shock on the region. Currencies in Brazil, Colombia and Mexico depreciated more than 10% against the U.S. dollar in the first three weeks of March. The Chilean peso and Peruvian sol depreciated around 5% in the same period. The U.S. dollar strength against Latin American currencies is still ongoing. In September, the U.S. dollar gained 2.4% against a basket of its peers after four months of declines, reaffirming the dollar's role as one of the world's preferred safe havens in times of stress.

III. Looking ahead

Prospects for a recovery of the United States economy have improved with the news that several vaccines have proven effective in trials and could be widely available by mid-2021. The pandemic-induced recession probably ended last spring, and unemployment has dropped to 6.7% in November from 14.7% in April. Growth projections are almost uniformly confident on the rebound in 2021, as soon as a successful vaccination program enables the economy to open up rapidly and normal spending and consumption patterns to return.

However, the crisis is not over, with infections and hospitalizations still on the rise and at or near records. The economic outlook remains challenging for the winter months, as it depends on containing the spread of the virus to avoid stricter restrictions by state and local governments, and on new policy measures to support the economy. The absence of fiscal stimulus may pose downside risks to economic growth, as the timing and scale of fiscal support will be key in the economy's near-term performance, particularly for the recovery of business activity and employment in the months to come.

ECLAC OFFICE IN **WASHINGTON, D.C.**

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