

**Economic  
Commission  
for  
Latin America  
and the  
Caribbean**

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

# U.S. Economic Outlook

First Half 2020



UNITED NATIONS

**E C L A C**

Washington, D.C., 23 September 2020

# Thank you for your interest in this ECLAC publication



Please register if you would like to receive information on our editorial products and activities. When you register, you may specify your particular areas of interest and you will gain access to our products in other formats.



[www.cepal.org/en/publications](http://www.cepal.org/en/publications)



[www.cepal.org/apps](http://www.cepal.org/apps)

This document was prepared by Helvia Velloso, Economic Affairs Officer, under the supervision of Inés Bustillo, Director, ECLAC Washington Office.

The views expressed in this document, which has been reproduced without formal editing, are those of the authors and do not necessarily reflect the views of the Organization.

---

United Nations Publication

LC/WAS/TS.2020/6

Copyright © United Nations, September 2020. All rights reserved

Printed at United Nations

---



# Contents

---

- Highlights ..... 7
- Overview ..... 9
- I. Quarterly developments ..... 13
  - A. Quarterly GDP Growth ..... 14
  - B. Retail sales ..... 16
  - C. Industrial production ..... 16
  - D. Labor market ..... 17
  - E. Inflation ..... 18
  - F. Monetary policy ..... 19
  - G. Fiscal policy ..... 21
  - H. Financial conditions ..... 21
  - I. External sector ..... 23
- II. Impact on financial conditions: Latin America and the Caribbean ..... 25
- III. Looking ahead ..... 27



## Highlights

---

- The U.S. economy shrank at a 32.7% annual rate in the second quarter of 2020 and at a 5% pace in the first. The decline was driven by a big collapse in private consumption, concentrated in the services sector. Shutdowns to stem the spread of the coronavirus had a deep impact on the economy, particularly on the services sector.
- Economic forecasts project a rebound in the third quarter that would recoup about half of the output lost in the first half of the year. To return to the previous peak recorded in the final quarter of last year, the economy would need to grow at roughly the same pace in the fourth quarter, but private forecasts point to a much lower (single-digit) growth rate, suggesting the recovery will be protracted.
- The economic policy response was prompt and strong in the early phase of the pandemic (equivalent to 13% of GDP). The size and content of another package of still much needed relief measures is currently under discussion.
- The economic outlook remains highly uncertain, as it depends on containing the spread of the virus, developing an effective vaccine, and on new policy measures to support the recovery.



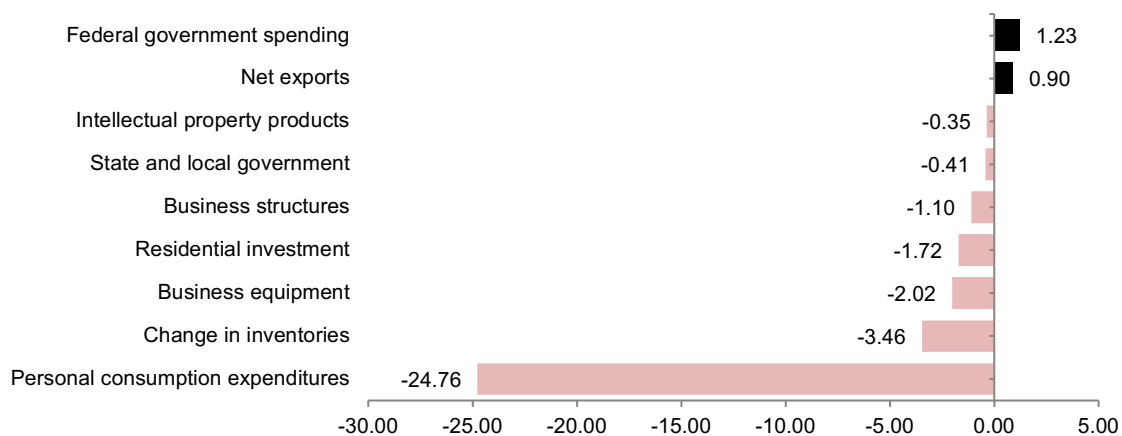


## Overview

The record long U.S. economic expansion came to an end this year, as a result of the COVID-19 crisis. After 42 consecutive quarters of growth, the U.S. economy shrank at a 5% annual rate in the first quarter of 2020 and at a record 32.7% rate in the second. The second-quarter contraction is the largest quarterly GDP fall recorded since the mid-1940s. The decline was driven by a big collapse in consumption, concentrated in the services sector.

Consumption expenditures, most investment components, state and local government spending, exports and inventories declined in the second quarter, while federal government spending and imports were offsets (chart 1). Consumer spending subtracted 24.8% from second-quarter growth, while gross domestic investment subtracted 8.7%, as a result of weakening demand and interruptions in supply chains. Most of the drag in consumer spending, 22.8%, came from service spending.

**CHART 1:**  
**CONTRIBUTIONS TO U.S. GROWTH: Q2 2020**  
(Percentage)



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

Many forecasters believe that the economy is already in a recovery following a recession that the National Bureau of Economic Research determined began in February. Forecasts point to faster improvement in the labor market, after employers added 1.37 million jobs to payrolls in August and the unemployment rate fell below 10% for the first time since March, to 8.4%.

As of late August and mid-September, market forecasters expected a rebound of 26% in the third quarter and of 5% in the fourth, on average (table 1). The expected GDP rebound in the third quarter ranges from 18% (Mortgage Bankers Association) to 33% (National Bank of Canada). In the fourth quarter, it ranges from 2.9% (Moody's) to 8.3% (Capital Economics). However, a rebound in the second half of the year is not expected to make up for the ground lost in the first half. For that to take place, growth in the fourth quarter would need to keep the same pace as in the third quarter, which so far is not expected.

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

	Q3 2020 (qoq)	Q4 2020 (qoq)	Q1 2021 (qoq)	Date of Forecast
<b><i>What Markets Say</i></b>				
Bank of America/Merrill Lynch	27.0%	3.0%	4.9%	11-Sep-20
Capital Economics	30.0%	8.3%	5.0%	28-Aug-20
JPMorgan	27.5%	3.5%	2.5%	28-Aug-20
Moody's Economy.com	26.6%	2.9%	3.6%	08-Sep-20
Mortgage Bankers Association	18.3%	5.4%	3.5%	20-Aug-20
National Association of Realtors	20.0%	8.0%	6.0%	Sep-20
National Bank of Canada	32.8%	3.6%	2.1%	Sep-20
TD Bank Financial Group	28.0%	6.0%	5.0%	17-Jun-20
Wells Fargo/Wachovia	25.4%	7.2%	6.9%	10-Sep-20
<b><i>Forecasts average</i></b>	<b>26.2%</b>	<b>5.3%</b>	<b>4.4%</b>	

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

Annual forecasts are growing more optimistic. The Federal Reserve's latest projections point to a decline of 3.7% in 2020, compared to a projected decline of 6.5% in June, and growth of 4% in 2021, compared to a projected increase of 5% in June. "The recovery has progressed more quickly than generally expected," Fed Chair Jerome H. Powell said at a news conference. "Even so, overall activity remains well below its level before the pandemic, and the path ahead remains highly uncertain."

On an annual basis, market projections point to a decline of 4.5% in 2020 on average, and growth of 3.8% in 2021 (table 2). However, the U.S. economic outlook is marked by uncertainty and any further growth following the projected initial bounce after state reopenings is conditional on keeping infection rates down and offering appropriate additional policy measures to support the economy.<sup>1</sup> Most forecasters expect the reduction in jobless benefits to dent consumer spending and retail sales in September, and cite insufficient fiscal stimulus, a second wave of the coronavirus, escalating tensions with China, contested elections and civil unrest as risks to their forecast.

<sup>1</sup> Chances of another pandemic-aid package before the 2020 elections, complete with extra unemployment benefits, receded after a Republican "leaner" bill – at roughly US\$ 500 billion, the bill was half of the initial GOP proposal and a fraction of the US\$ 2.2 trillion that Democrats were seeking at minimum – failed to advance in the Senate on 10 September. Most of the previously approved fiscal programs are due to run out in the coming weeks and months, with emergency jobless benefits and the Paycheck Protection Program for small businesses having already expired. Extra jobless benefits have been extended once by executive order, at half the size, but are set to run out in weeks.

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

	Real GDP (% change, y/y)		CPI (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		Date of Forecast	
	2020	2021	2020	2021	2020	2021	2020	2021		
<b>A. What Government Agencies Say</b>										
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%	<i>na</i>	<i>na</i>	Feb-20	
<b>B. What Markets Say</b>										
Bank of America/Merrill Lynch	-4.3%	3.8%	1.2%	1.8%	8.5%	7.5%	0.13%	0.13%	11-Sep-20	
Capital Economics	-3.7%	4.5%	1.3%	2.2%	8.7%	5.8%	0.1%	0.1%	28-Aug-20	
JPMorgan	-4.2%	2.6%	1.2%	1.8%	9.0%	8.1%	0.25%	0.25%	28-Aug-20	
Moody's Economy.com	-4.3%	3.5%	1.3%	2.0%	8.7%	8.4%	0.4%	0.1%	8-Sep-20	
Mortgage Bankers Association	-5.6%	4.1%	1.1%	2.7%	8.7%	6.9%	0.125%	0.125%	20-Aug-20	
National Association of Realtors	-6.0%	4.0%	0.3%	1.9%	9.0%	7.7%	0.4%	0.1%	Sep-20	
National Bank of Canada	-3.2%	2.2%	1.0%	2.0%	8.9%	7.7%	0.25%	0.25%	Sep-20	
TD Bank Financial Group	-4.5%	4.3%	0.9%	1.5%	8.5%	7.0%	0.25%	0.25%	17-Jun-20	
The Economist Intelligence Unit	-5.3%	4.0%	0.7%	1.7%	9.0%	6.8%	0.1%	0.1%	14-Sep-20	
Wells Fargo/Wachovia	-4.2%	4.6%	1.1%	1.7%	8.4%	6.6%	0.25%	0.25%	11-Sep-20	
<b>Market Average</b>	<b>-4.5%</b>	<b>3.8%</b>	<b>1.0%</b>	<b>1.9%</b>	<b>8.7%</b>	<b>7.3%</b>	<b>0.2%</b>	<b>0.2%</b>		
<b>C. What International Organizations Say</b>										
United Nations DESA (Baseline)	-6.5%	2.1%	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	May-20	
World Bank	-6.1%	4.0%	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	Jun-20	
OECD*	-3.8%	4.0%	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	Sep-20	
IMF	-8.0%	4.5%	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	Jun-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).

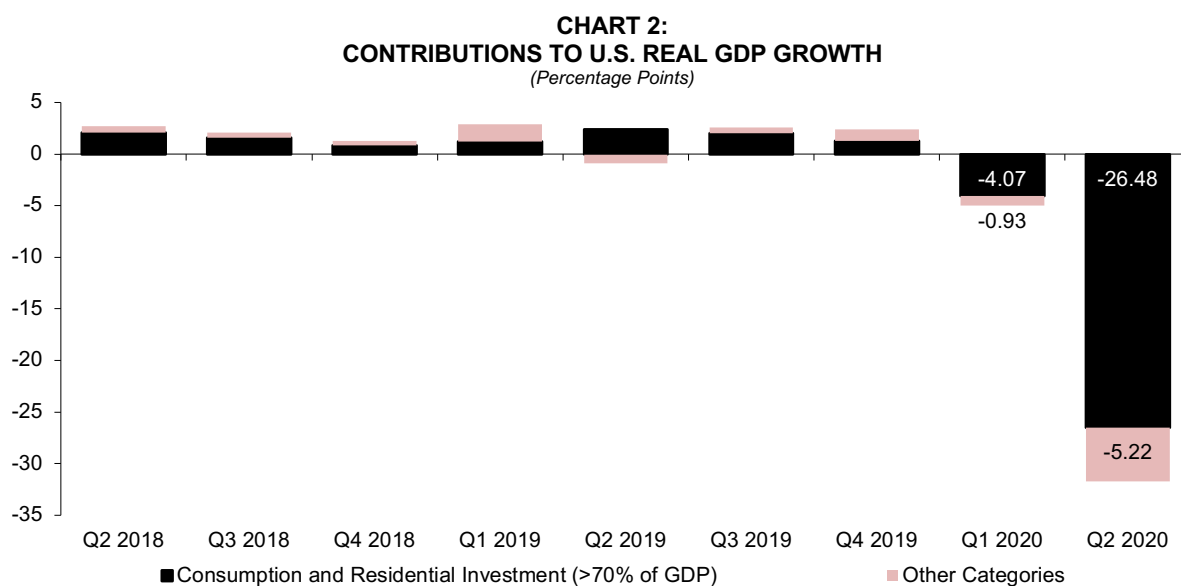
\*Forecast for PCE inflation.



## I. Quarterly developments

The real GDP contraction in the second quarter reflected declines in personal consumption expenditures (PCE), exports, nonresidential fixed investment, private inventory investment, residential fixed investment, and state and local government spending, which were partly offset by an increase in federal government spending. Imports, which are a subtraction in the calculation of GDP, decreased, making a positive contribution to growth.

The core of the U.S. economy —consumption and residential investment— subtracted 26.5% from growth in the second quarter and 4.1% in the first (chart 2). However, it was consumption that really drove the decline in the first half of 2020, subtracting 4.8% and 24.8% from growth in the first and second quarters, respectively.

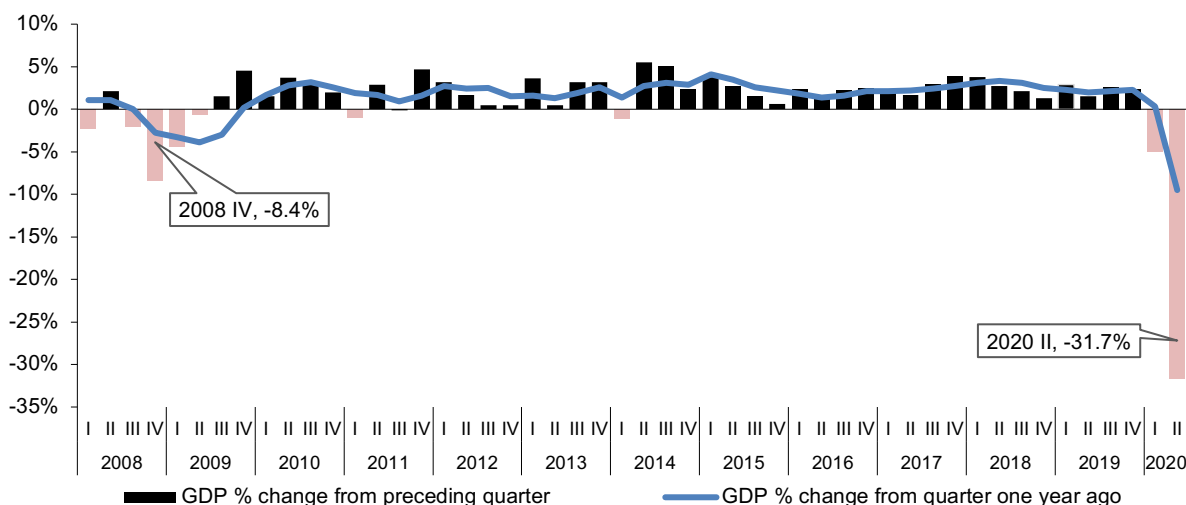


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.  
Note: Contributions to growth are measured at seasonally adjusted annual rates.

## 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 27 August 2020, the U.S. economy contracted at an annual rate of 31.7% in the second quarter of 2020, the worst quarterly decline in the post-war period (chart 3).

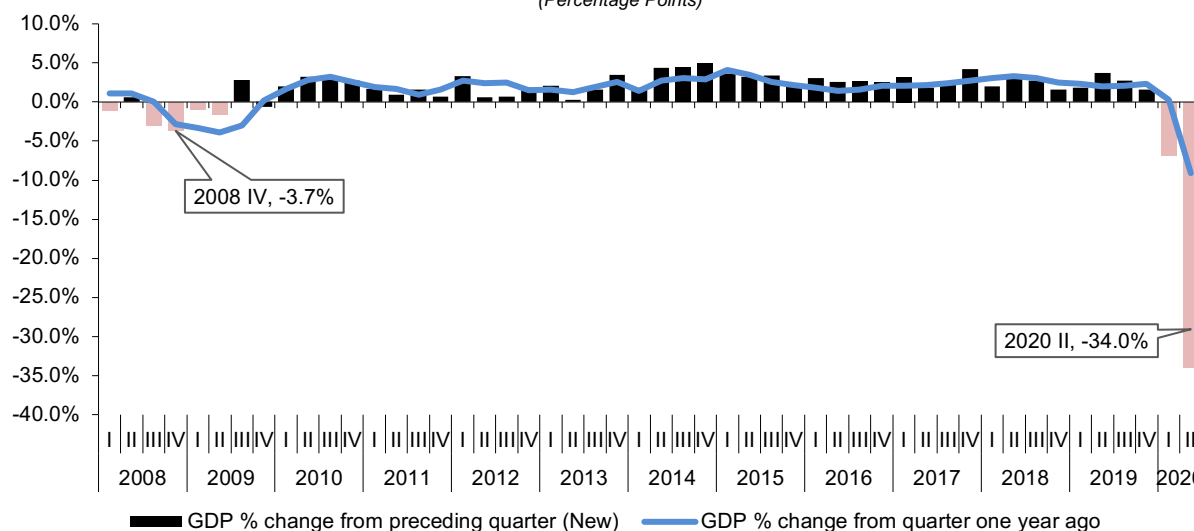
**CHART 3:**  
**U.S. REAL GDP: QUARTERLY GROWTH**  
(Percentage Points)



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

Private consumption expenditure contracted by 34% (chart 4), despite a sharp increase in disposable income. Emergency aid funding—including expanded unemployment benefits and one-off stimulus checks—helped to shore up household income in the second quarter. Nonetheless, the savings ratio sharply increased to an average of 25%, reflecting the disruption of normal consumption patterns by lockdown and social distancing measures. Consumer spending subtracted almost 25% from growth in the second quarter.

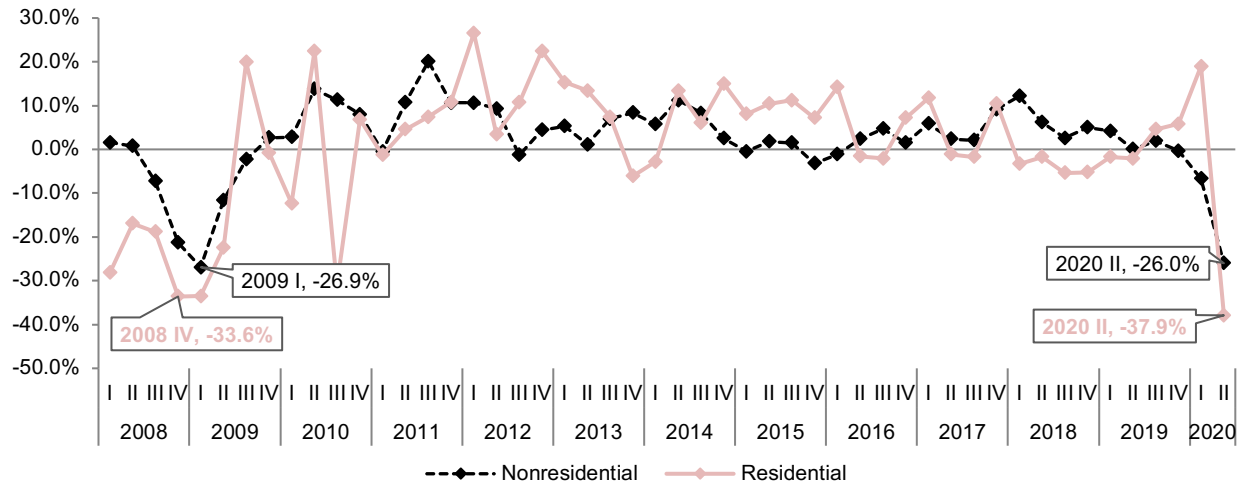
**CHART 4:**  
**PERSONAL CONSUMPTION EXPENDITURE: QUARTERLY GROWTH**  
(Percentage Points)



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

In line with the plunge in consumer demand, gross private domestic investment contracted by almost 50% and subtracted 8.7% from growth in the second quarter. Fixed investment contracted by 28.9%, with residential and non-residential investment declining by 37.9% and 26.0%, respectively, and together subtracting 5.2% from growth (chart 5). The change in private inventories subtracted 3.5%.

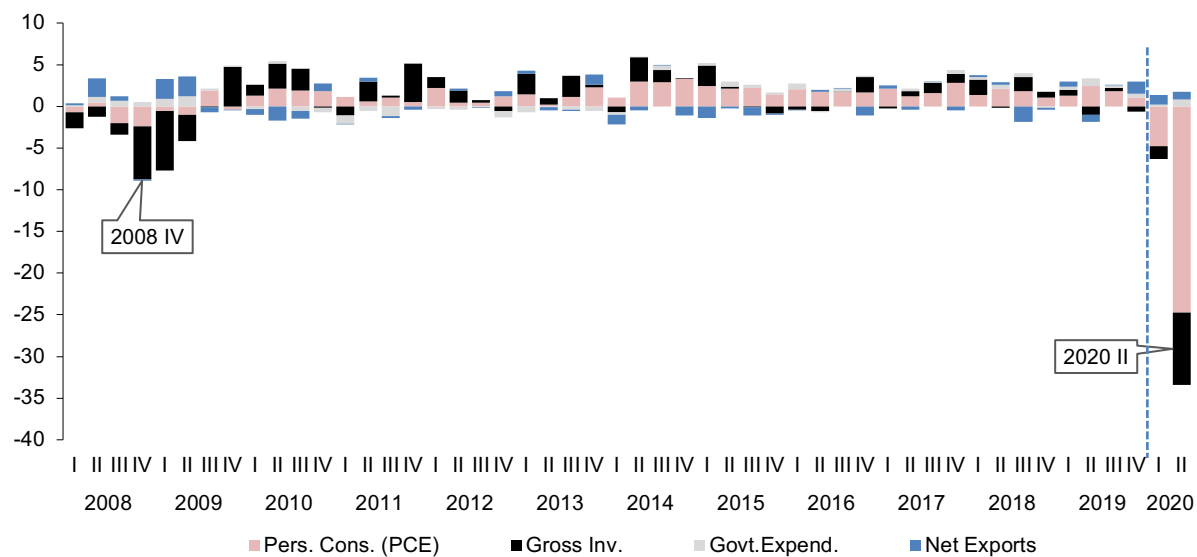
**CHART 5:  
GROSS PRIVATE DOMESTIC INVESTMENT: QUARTERLY GROWTH**  
(Percentage Points)



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

Overall, government spending increased 2.8% and added 0.82% to growth in the second quarter. State and local government spending declined by 5.5%, however, while federal outlays increased 17.6% (with national defense and nondefense spending increasing 4.2% and 40.1%, respectively). Finally, net exports added 0.9% to growth in the second quarter. Exports contracted by 66.2% and imports by 54%, subtracting 9.22% and adding 10.12%, respectively, to second-quarter growth (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.

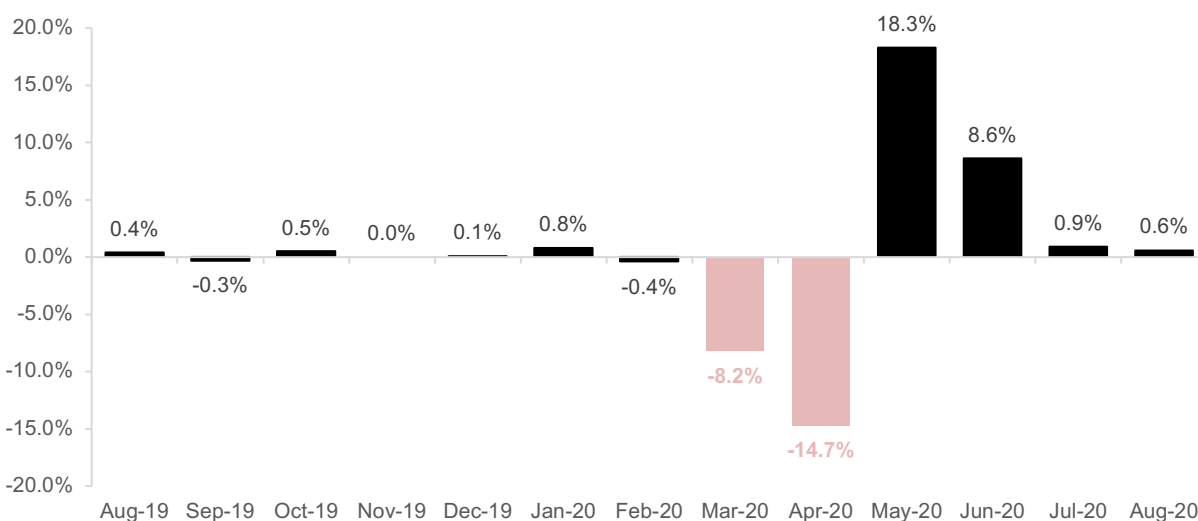
## B. Retail sales

Consumers' reduced ability or willingness to purchase goods and services, amid lay-offs and fear of infection, has weakened demand. Figures from the United States Census Bureau indicate that retail sales, a measure of purchases at stores, gasoline stations, restaurants, bars and online, fell a record 14.7% in April and 8.2% in March, showing how the pandemic has reshaped and curbed spending habits in the United States. These were the largest month-on-month declines since records began in 1992.

Retail sales rebounded by an unprecedented 18.3% in May, however, defying expectations and more than reversing their April decline. The increase in spending came as 2.5 million employees returned to work and as household incomes were supplemented by federal support. Retail sales continued to rise in June, increasing 8.6%. The rapid gains in May and June lifted sales back to above pre-pandemic levels.

U.S. sales growth slowed significantly to 0.9% and 0.6% in July and August, respectively, after the surge in COVID-19 infections during the summer prompted some states to pause or reverse reopenings. The August reading offers an early sign of the effects on consumer spending after emergency jobless benefits expired at the end of July. It was below the 1% consensus forecast, raising concerns that the expiration of government stimulus measures could be undermining the economic recovery.

**CHART 8:**  
**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

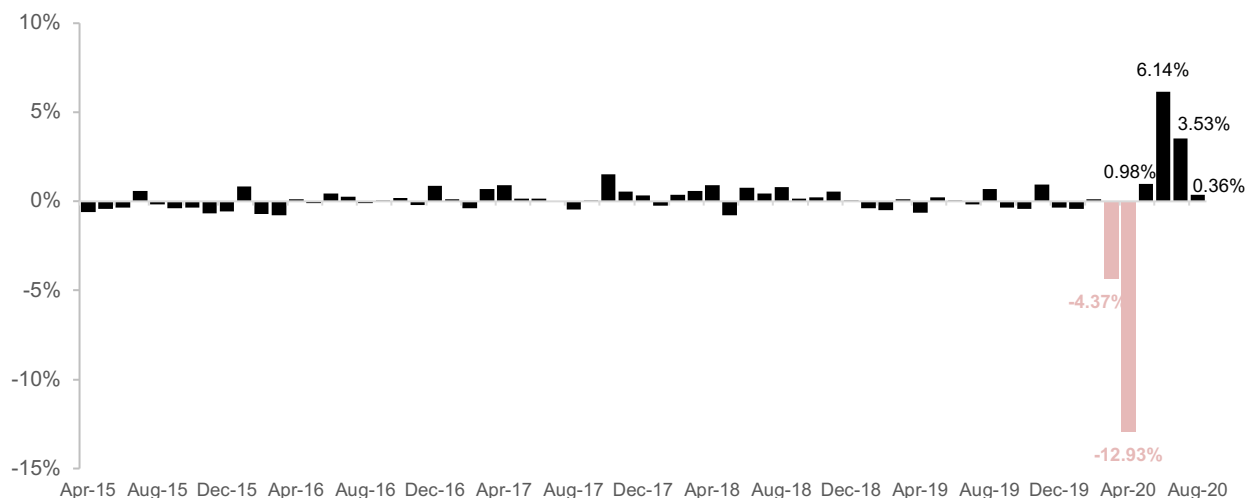
On the supply side, lockdown measures have had an impact on the economy's capacity to produce goods and services. Industrial production, a broad gauge of output from factories, mines and utilities, plunged by a seasonally adjusted 12.9% in April. This was the steepest monthly fall on record since a decline of 10.4% in August 1945, following an earlier contraction of 4.4% in March (chart 7), according to data from the Federal Reserve.

After contracting for two months running, industrial production began to rebound, rising 1% in May and a strong 6.1% in June. The pace has diminished since then, and the headline number was weaker than expected in August (0.4% versus the 1% consensus forecast), partly due to the impact of weather on mining production and utilities output.



Manufacturing output, the biggest component of industrial production, increased by 7.64%, 3.97% and 0.96%, in June, July and August, respectively, as many factories resumed operations, but it remains 6.4% below its pre-pandemic February level. Total industrial production remains 7.3% below that level. With output still more than 7% below pre-pandemic levels, the rebound in industrial production is lagging the recovery in sales.

**CHART 7:  
U.S. INDUSTRIAL PRODUCTION**  
(Seasonally adjusted, Month to month percentage change)

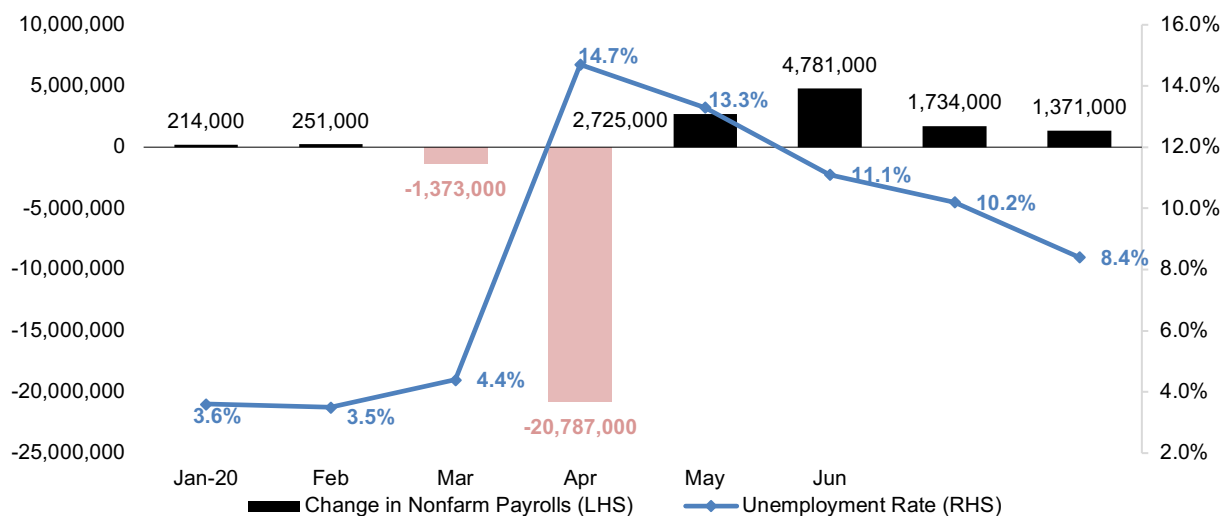


Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve and the Federal Reserve of St. Louis (FRED).

### D. Labor market

The U.S. economy added 1.37 million jobs in August (chart 8). About half of the jobs lost in March and April (52%) have now been recouped. This still leaves a deficit of 11.6 million jobs. The unemployment rate, at 8.4%, has fallen back below the post financial crisis peak of 10% reached in October 2009.

**CHART 8:  
THE U.S. LABOR MARKET: MONTHLY JOB CREATION AND UNEMPLOYMENT RATE**  
(Average Monthly Job Growth (left axis); Percentage Points (right axis))

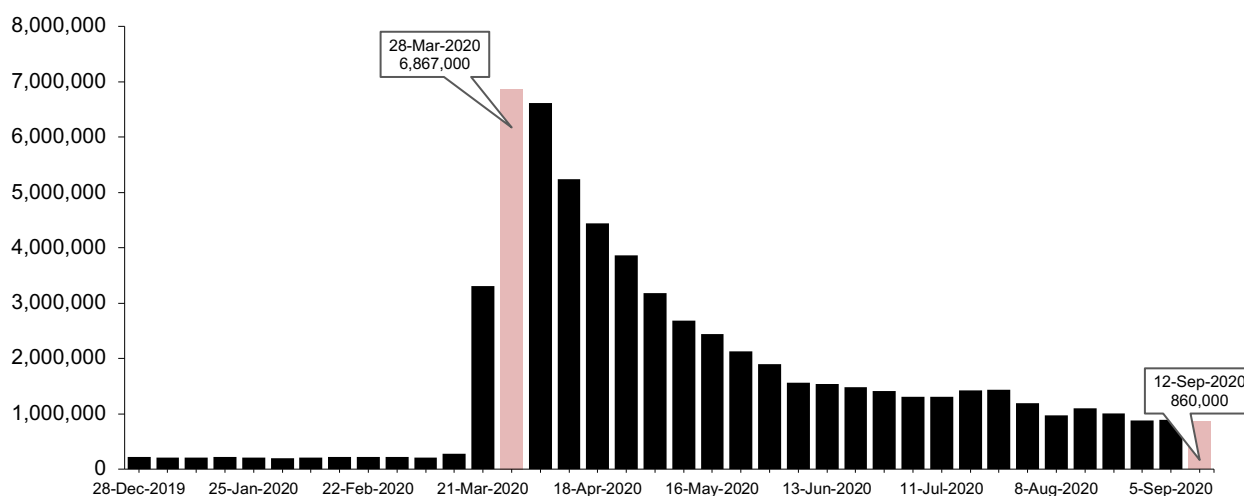


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

Payroll gains slowed compared with July, when 1.7 million jobs were added. Most of the slowing can be attributed to the leisure/hospitality sector, which added 174,000 jobs, compared with 621,000 in July and nearly 2 million in June. A slowdown in reopenings and some reversals explains the downshift. Healthcare also added fewer jobs.

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 860,000 new applications for jobless aid on a seasonally adjusted basis for the week ending September 12, 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 9).

**CHART 9:**  
**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).

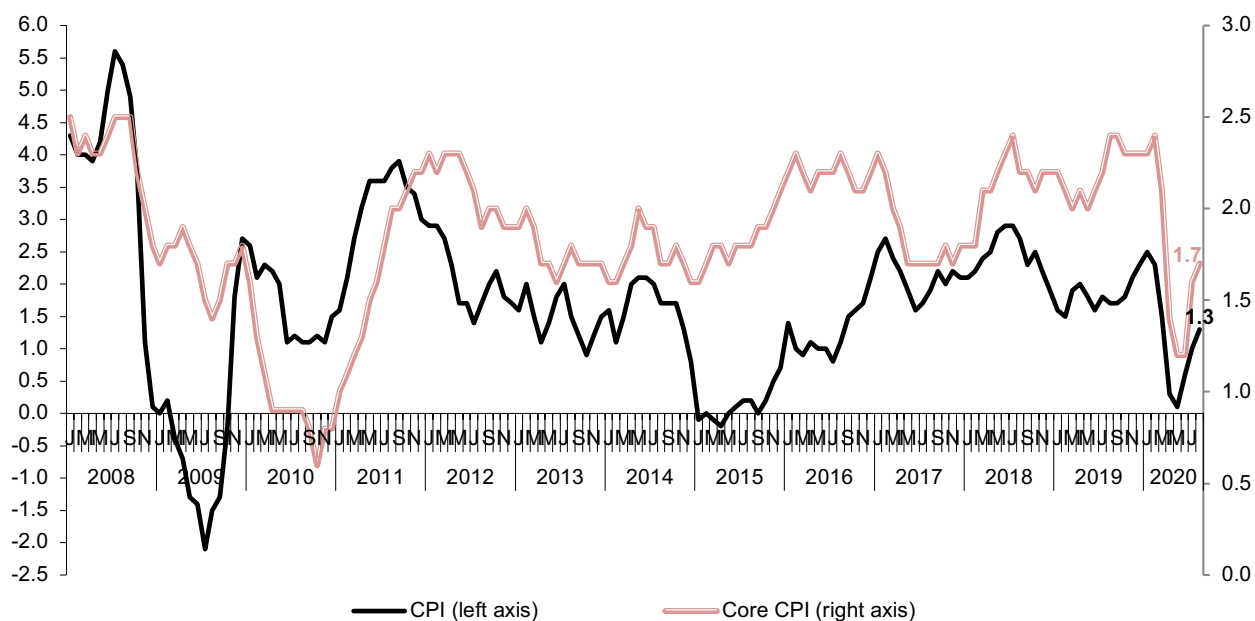
At a time of such exceptionally high unemployment, it is notable that in the Federal Reserve’s Beige Book – which summarizes reports from business contacts across the country – some companies have reported experiencing difficulty finding necessary labor, a problem they say “is compounded by day care availability, as well as uncertainty over the coming school year and jobless benefits.”

## E. Inflation

There has been a rebound in inflation since the initial lockdown measures were lifted. The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4% on a seasonally adjusted basis in August, marginally slower than the 0.6% increase in July. Headline inflation has been boosted by the recovery in gasoline prices. The CPI for energy increased 0.9% in August, although this was a deceleration from growth of 2.5% in July and 5.1% in June. The index for all items less food and energy also increased 0.4%.

Core consumer prices have been the bigger driver of the increase in inflation. For the 12 months ending in August, while the all items index increased 1.3%, the index for all items less food and energy rose at a faster pace of 1.7% (chart 10). The sharp rise in the index for used cars and trucks accounted for over 40% of the increase in core prices, according to the Bureau of Labor Statistics. This may be the result of low inventory levels, as low interest rates and a move away from public transport have boosted vehicle demand. The food index rose 4.1% over the last 12 months, while the energy index declined 9.1% over the last year.

**CHART 10:**  
**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 annual inflation rates are still a lot lower than the Federal Reserve would like, but that's mainly because of the sharp one-off declines in prices in the early stages of the pandemic. In more recent months there has been more upward pressure on prices, although expected inflation has risen only modestly.

## F. Monetary policy

In August, Federal Reserve Chair Jerome Powell unveiled the central bank's revised *Statement on Longer-Run Goals and Monetary Policy Strategy* in his Jackson Hole speech, the first major change to the policy framework since 2012. Changes were made to both the inflation and employment mandates. Regarding inflation, the Federal Open Market Committee (FOMC) will now aim "to achieve inflation that averages 2% over time". With headline and core inflation under-shooting the 2% target over the past decade, that implies the Fed is now aiming for above-target inflation. The FOMC issued forward guidance to this effect in its meeting on September 16. The policy statement noted that "with inflation running persistently below" the 2% longer-run inflation target, the FOMC "will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time". In their accompanying projections, officials indicated that would mean keeping interest rates near zero at least until end-2023 and until unemployment falls to 4%.

With respect to changes to its maximum employment mandate, Fed officials now see it as "a broad based and inclusive goal", implying a focus on a wider range of indicators beyond the standard unemployment rate. In addition, officials will now seek to minimize "shortfalls" rather than "deviations" of employment relative to this maximum level, which effectively ends the decades-long commitment to the Philips Curve framework of pre-emptively raising interest rates in response to falling unemployment.

As the Fed concluded two days of policy meetings on 16 September, they released new economic projections. The new projections suggest Fed leaders are growing more optimistic about the recovery than they were earlier this summer. By 2023, policymakers' projections put the unemployment rate at 4%. Federal Reserve leaders predict that unemployment will fall to 7.6% by the end of this year, and to 5.5% by the end of 2021, even as much about the path of the novel coronavirus and its influence over the economic recovery remain unknown. Regarding growth, the projections point to a decline of 3.7% in 2020,

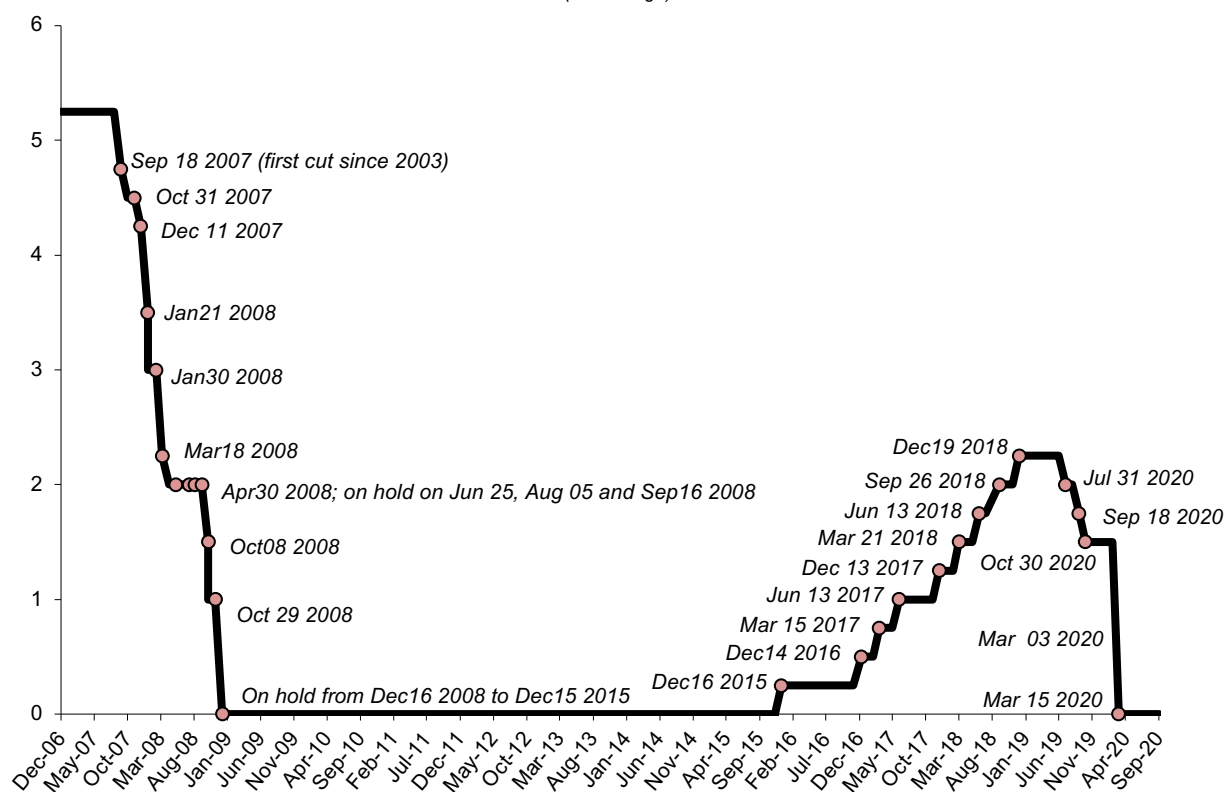
compared to a projected decline of 6.5% in June, and growth of 4% in 2021, compared to a projected increase of 5% in June.

At the same time, the majority of Fed officials expected the benchmark interest rate would stay at or near zero through 2023. The Fed also said it would increase holdings of Treasury securities and agency mortgage-backed securities at the current pace, which officials say is helping stave off an even deeper financial crisis.

In the six months since the COVID-19 pandemic gripped the U.S. economy, the Federal Reserve has reached far beyond its toolkit from the 2008 financial crisis, growing its balance sheet by roughly US\$ 3 trillion —the balance sheet grew to a peak of US\$ 7.17 trillion by the beginning of June (the previous peak was US\$ 4.5 trillion, reached in early 2015), as US\$ 3 trillion was added in March, April and May— through emergency lending programs and moves to bolster markets. The vast emergency response helped to keep credit flowing into the U.S. economy and to stabilize financial markets.

The moves have pushed the central bank into uncharted territory, testing how far its tools can go. The central bank was quick to bring interest rates to zero (chart 11), backstop credit markets and buy up corporate debt — but those policies often sidestep those who do not hold investments. A lending program for small and midsized businesses has seen little interest so far, raising doubts about the Fed’s ability to directly help companies fighting for survival. That’s why Fed officials have been pleading for Congress and the administration to pump more fiscal aid into the economy.

**CHART 11:**  
**U.S. FEDERAL FUNDS TARGET RATE**  
(Percentage)



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

## G. Fiscal policy

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 in the coming weeks and months. For example, 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. Lawmakers are now at odds over the size and content of another package of still much needed relief measures that could help maintain the support for the U.S. economic recovery.

The annual deficit nearly tripled through the first 11 months of the fiscal year, to US\$ 3 trillion (or 16% of GDP) from US\$ 1 trillion during the same period a year earlier, the largest since 1945. Total debt held by the public has risen to US\$ 20.8 trillion as of 9 September, from US\$ 17.4 trillion in early March. The widening budget gap is at the center of a debate over how much more support the economy needs to recover from the pandemic.

The Congressional Budget Office said in early September that debt as a share of economic output is set to approach 100% for fiscal year 2020, compared with 79.2% last year, and hit 108.9% by the end of the next decade. Despite the rising debt, however, the CBO lowered its projections for interest costs over the next decade by US\$ 2.2 trillion from its forecast in March, reflecting lower-than-expected interest rates. Demand for safe Treasury assets has kept interest rates near historic lows this year, pushing net interest costs down by 10% from October 2019 through August 2020, according to the U.S. Treasury department. The cost of servicing the growing debt load is shrinking despite the historic rise in debt this year, suggesting that the U.S. economy still has room to borrow to fight the COVID-19 pandemic.

## H. Financial conditions

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 in recent months. In the first half of 2020, the Dow Jones Industrial Average and the S&P 500 lost 10% and 4%, respectively, while NASDAQ gained 12%. The losses were all in the first quarter, and in the second quarter there was a recovery. Year-to-date (as of 15 September), the S&P 500 had more than recouped all its losses and NASDAQ had gained 25%. Only the Dow Jones was still in the negative, recording a 2% decline (table 3). However, since the beginning of September stocks have been declining (chart 12), hurt by weakness in filings for jobless benefits claims, which have held steady, the waning chances of another pandemic-aid package before the 2020 elections, and uncertainty over the path of the coronavirus pandemic in the fall and winter.

**TABLE 3:**

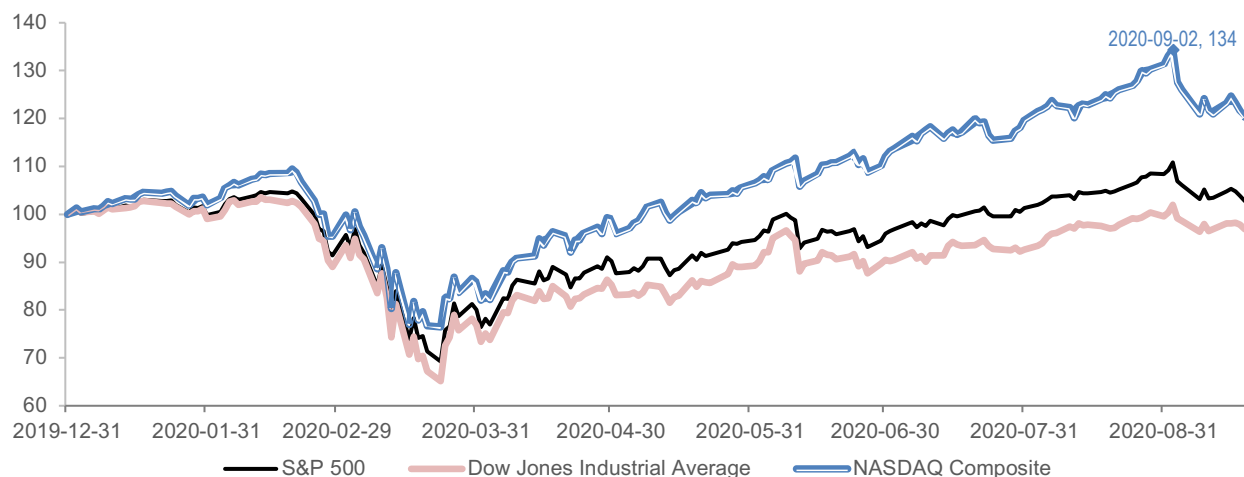
<b>STOCK PRICES</b>			
<i>(Percentage change)</i>			
	<b>Dow Jones Industrial Average</b>	<b>S&amp;P 500</b>	<b>Nasdaq</b>
<b>Q1 2020</b>	-23%	-20%	-14%
<b>Q2 2020</b>	18%	20%	31%
<b>H1 2020</b>	-10%	-4%	12%
<b>2020 YTD</b>	-2%	5%	25%

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. However, some concerns

have risen regarding resemblance between the current increase in such companies’ stock prices to previous asset bubbles. Economic prospects of many of these companies may be as unrealistic as they were in Japan in the 1980s and during the dotcom bubble in the United States in the late 1990s and early 2000s.

**CHART 12:**  
**U.S. STOCK MARKET INDICES**  
*(Daily, Not Seasonally Adjusted)*

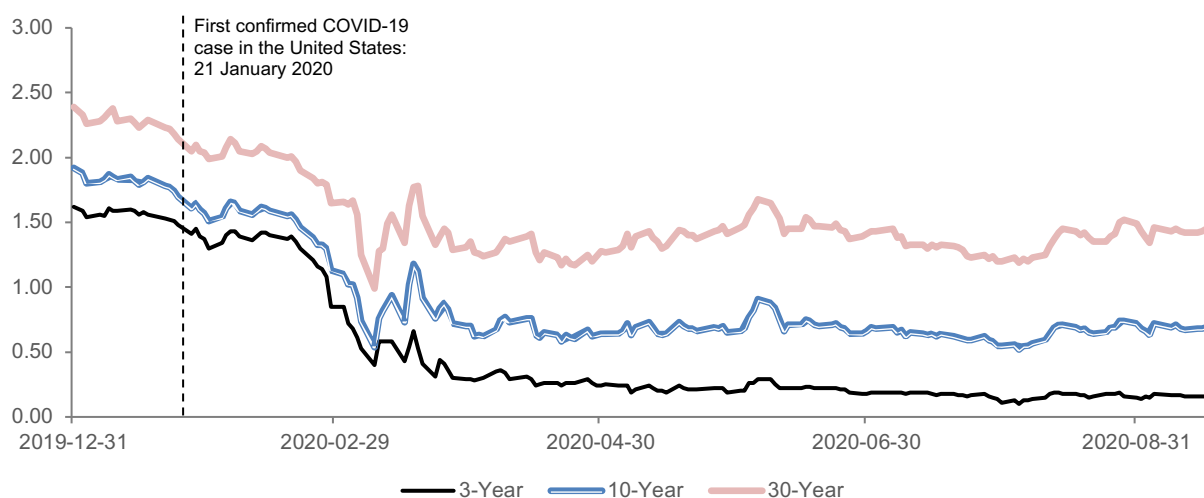


Source: ECLAC Washington Office, based on data from the Federal Reserve of St. Louis (FRED).

According to Bloomberg data, 530 out of the U.S. 8,513 listed common stocks trade at more than 10 times their sales. This is 6.2% of all common stocks, up from a ratio of 3.8% at the market’s low in March. Only at the very top of the dotcom bubble, in March 2000, a larger percentage of stocks (6.6%) were trading in excess of 10 times sales.

In his 2007 memoir, former Federal Reserve chair Alan Greenspan wrote that the total value of U.S. stocks holdings rose from 60% of GDP in 1990 to 120% by 1996. In Japan, in the 1980s, that ratio reached 140% by the end of 1989, according to the World Bank. Today, the U.S. market capitalization-to-GDP ratio is just shy of 200%.

**CHART 13:**  
**U.S. TREASURY SECURITY YIELDS**  
*(Constant Maturities; Daily Yields)*



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 (chart13). The decline in short-term Treasury yields was sharper than the declines in longer Treasury maturities. Year-to-date (as of 15 September), the 3-year, 10-year and 30-year Treasury yields fell 90%, 65% and 40%, respectively (table 4).

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

	<b>3-year</b>	<b>10-year</b>	<b>30-year</b>
<b>Q1 2020</b>	-82%	-64%	-44%
<b>Q2 2020</b>	-38%	-6%	4%
<b>H1 2020</b>	-89%	-66%	-41%
<b>2020 YTD</b>	-90%	-65%	-40%

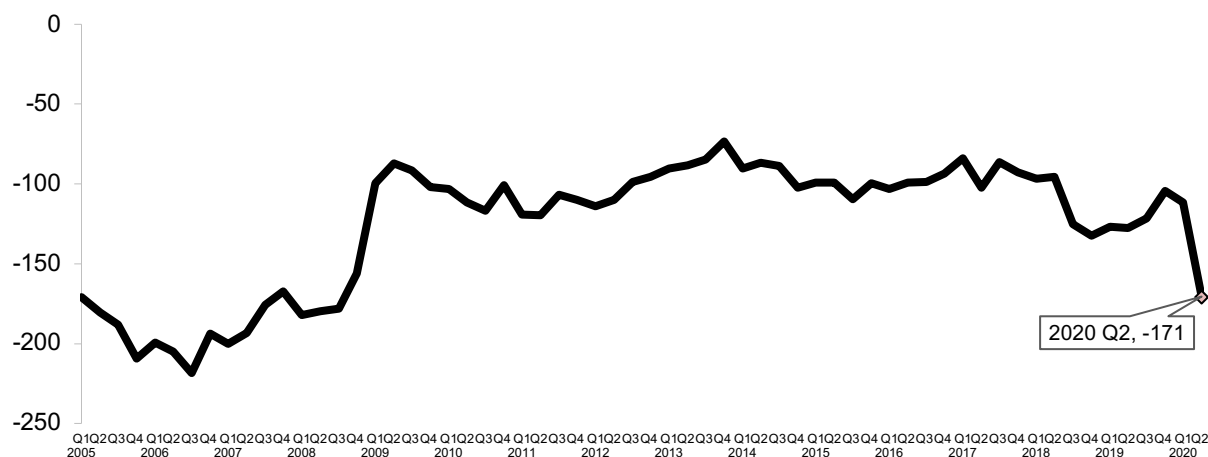
Source: ECLAC Washington Office, based on data on Monthly Yields, Constant Maturities, Economic Indicators, U.S. Government; YTD: as of 15 September.

Companies across the United States are taking advantage of low borrowing costs to extend the maturity of their debt, selling longer dated bonds to investors searching for yield. So far this year, more than US\$ 250 billion worth of bonds have been issued with the primary purpose of refinancing debt that companies have coming due, according to Refinitiv, a global provider of financial market data. That is almost double the amount for the same period last year. 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. Overall, debt issuance by U.S. companies has shattered the record amount sold by companies in a full year, with almost four months to go in 2020.

## I. External sector

The U.S. current account deficit, the broadest measure of net exports to the rest of the world, widened by US\$ 59 billion, or 52.9%, to US\$ 170.5 billion in the second quarter of 2020, according to statistics from the U.S. Bureau of Economic Analysis (BEA). This is the largest deficit since 2008 (chart 14). The revised first quarter deficit was US\$ 111.5 billion. The goods deficit widened, and the services surplus shrank as exports tumbled by more than imports. As a share of GDP, the current account deficit increased to 3.5% from 2.1%.

**CHART 14:**  
**U.S. BALANCE ON CURRENT ACCOUNT**  
*(Annual, Seasonally Adjusted, US\$ Billion)*



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

Both exports and imports rebounded sharply in July, the latest monthly data available. However, the bigger gain in the latter means that the trade deficit widened to US\$ 63.5 billion, from US\$ 53.5 billion. The rise in the trade deficit came as an 8.1% rise in exports in July was outpaced by a 10.9% increase in imports. Around a third of the improvement in both exports and imports was due to a rebound in motor vehicles trade as supply chains ramped up again.

In July, spending on durable and nondurable goods was above pre-COVID-19 levels. However, services spending remains well below its pre-COVID-19 level, as consumers have shifted their spending from services to goods. The trade deficit is expected to narrow over the next couple of months, as the U.S. dollar has lost some momentum and that should support exports.

Looking ahead, consumer spending will be key to the external sector performance. Real consumer spending rose 1.6% in July. This has real consumer spending on track to rise 36.9% in the third quarter at an annualized rate, according to Moody's projections. There will likely be some weakening in consumer spending in August and September because of waning support from fiscal stimulus.



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

---

As part of the collapse of financial markets that took place in the first phase of the COVID-19 crisis, there was a massive outflow of portfolio capital from emerging economies. The International Monetary Fund (IMF) estimated it at more than US\$ 100 billion, a flight higher than the one that took place after the collapse of investment bank Lehman Brothers in 2008, which triggered the international financial crisis. The immediate impact of the pandemic on Latin American and Caribbean (LAC) financial conditions, in particular, was strong, as there was a flight from risk amid a global economic slump, which was aggravated by a sharp decline in commodity prices, remittances and receipts from tourism, and in world trade. The financial situation was worsened by a strong U.S. dollar.

However, the massive intervention of the United States Federal Reserve followed by other global central banks managed to stabilize financial markets since the end of March, and even generated a recovery in the world's stock exchanges. As part of this process, there has also been a recovery in private financing to emerging economies. In the case of Latin America and the Caribbean, after a two-month halt in February and March in the wake of the COVID-19 crisis, unprecedented sovereign issuance in April led to a rebound in the region's issuance, as growing financing gaps triggered by the COVID-19 pandemic and the sudden drop in oil prices pushed up the issuance volume.<sup>2</sup> New issuance in the second quarter has more than compensated for this previous hiatus. Total issuance for the second quarter of 2020 was 31% higher than in the second quarter of 2019. Debt spreads have also trended down since reaching 703 basis points at the end of the first quarter, which was close to the peak reached in November 2008.

The pandemic also had an immediate effect on Latin American currencies and equities, with most currencies depreciating and equities selling off. The Morgan Stanley Capital International (MSCI) index

---

<sup>2</sup> On 26 March, Panama successfully placed a sovereign bond in cross-border markets to secure additional resources to combat the COVID-19 pandemic. It was followed in April by other four sovereigns from the region – Peru, Guatemala, Mexico and Paraguay – all tapping international debt markets with sizeable issuances for coronavirus funding. There was strong demand for the bonds. Together, these five sovereign issuances amounted to US\$ 13 billion in new cross-border bonds.

for Latin America was down 46% by the end of March, while emerging markets were down 24% and G7 countries 21%. Latin American equities reached a low point on 23 March, when stock prices were down 53%. By the end of July, the MSCI index for Latin America was still down by 25%, while emerging markets were down 2% and G7 countries 3%. 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.

Finally, LAC credit quality has deteriorated sharply since the beginning of the year. Negative credit rating actions (including downgrades and downward outlook revisions) have outnumbered positive actions in the region for seven years in a row, but the imbalance has worsened so far this year. In the month of April alone, there were twenty-two negative actions, fourteen of them downgrades, on account of the impact of the coronavirus outbreak. The commodity-exporters of the region, particularly oil-exporters, were the hardest hit by the downgrades as they were impacted as well by the oil prices-shock, higher volatility and tighter financial conditions.

### III. Looking ahead

---

Prospects for a recovery of the United States economy have improved but the outlook is still uncertain. The economic rebound that took place following the reopening of states' economies may lose steam later this year or in early 2021 without additional fiscal support.

One of the biggest concerns is that consumption could falter after being supported so heavily by direct payments to households worth up to US\$ 1,200 per adult and extra emergency federal unemployment benefits of US\$ 600 per week that were included in the CARES Act passed in March. Extra federal assistance to unemployed workers ended at the end of July and the support to small businesses also ended in early August. Without a new round of financial assistance, chances are higher that the U.S. economy may see a wave of small-business failures, which employ nearly half of American workers. There is also unease regarding federal assistance to cash-strapped state and local governments. Ben Bernanke, the former Federal Reserve chair, warned in July of a “significantly worse and protracted recession” if no additional federal help was given to state and local governments.

Looking ahead, the U.S. economic outlook will ultimately depend on the trajectory of the pandemic itself, and on how effective the measures to contain the spread of the virus and fight its consequences will be. Much will depend on how much support for the recovery of business activity and employment will be made available.



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

**ECLAC**

Economic Commission for Latin America and the Caribbean (ECLAC)  
Comisión Económica para América Latina y el Caribe (CEPAL)  
[www.eclac.org](http://www.eclac.org)