Economic Commission for Latin America and the Caribbean

ECLAC OFFICE IN WASHINGTON, D.C.

U.S. Economic Outlook

2019 in review and early 2020 developments

UNITED NATIONS

ECLAC

Washington, D.C., 6 April 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.

Register

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.2020/3

Printed at United Nations

Contents

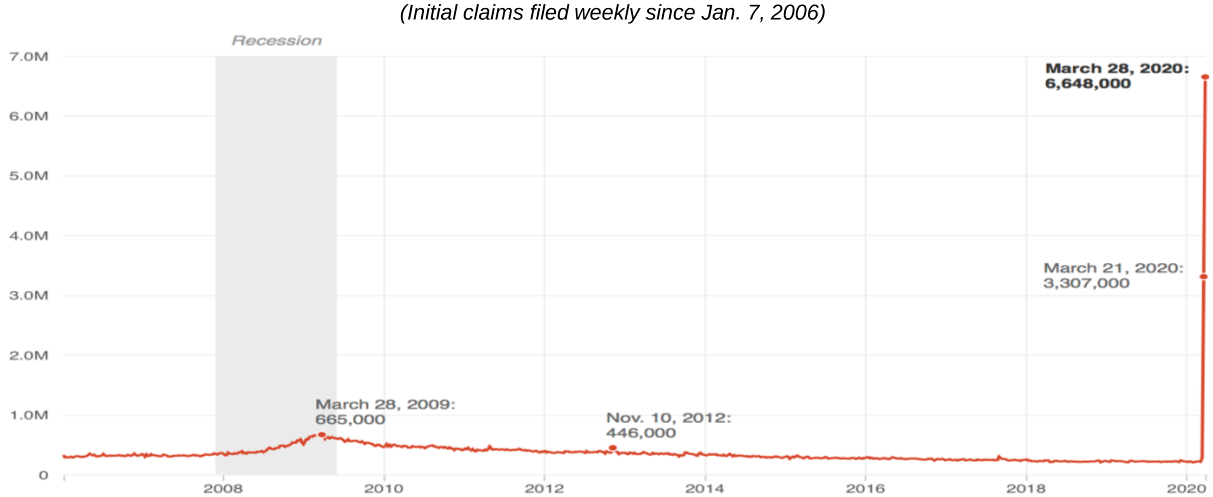
Highlights

- The record long U.S. economic expansion is coming to an end, as a result of the COVID-19 pandemic. Shutdowns to stem the spread of the virus have already had an impact on the economy, and are already visible in some preliminary data for March, ranging from jobless claims to factory output. The U.S. government will release its initial estimate for the first quarter of 2020 at the end of April, and a decline in growth is expected, followed by an even worse decline in the second quarter.
- Three stimulus packages were approved by the U.S. Congress in March, aiming to address the impact of the COVID-19 pandemic on households and businesses. The Federal Reserve has cut interest rates to the zero-lower bound, offered unlimited quantitative easing, and deployed old tools (used in the 2008 financial crisis) and new, aimed at keeping financial markets functioning.
- A U.S. recession in the first half of the year is now the baseline forecast according to market projections. The outlook remains highly uncertain and constantly changing, as new estimates of the impact of the pandemic are made and government actions further restricts the population's mobility and economic activity.

Overview

The record long U.S. economic expansion will end this year, as a result of the COVID-19 crisis. Shutdowns to stem the spread of the virus have already had an impact on the economy, and are already visible in some preliminary data for March, ranging from factory output to jobless claims. In the weeks ended on March 21 and on March 28, 3.3 and 6.6 million people, respectively, filed for unemployment insurance benefits, shattering the historic record and marking an abrupt end to the country's decade long run of job growth (chart 1).[1]

CHART 1:
U.S. UNEMPLOYMENT CLAIMS
(Initial claims filed weekly since Jan. 7, 2006)



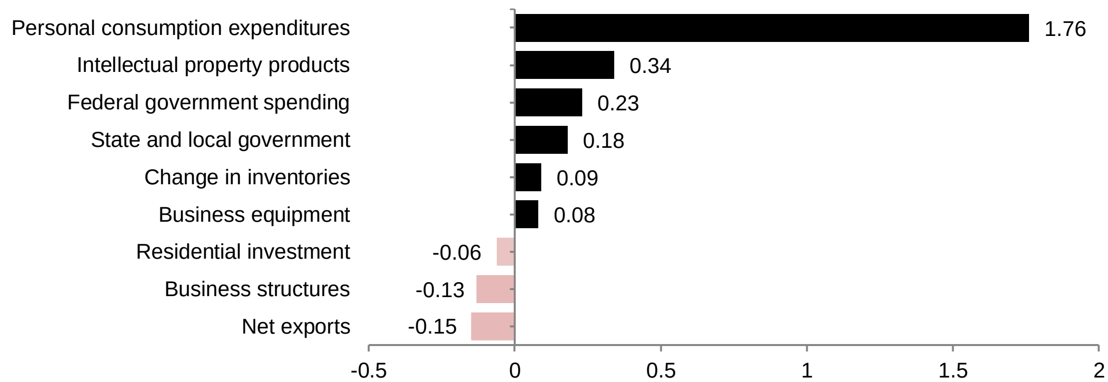
Source: Department of Labor unemployment insurance weekly claims report (April 2, 2020);
NPR (https://www.npr.org/sections/coronavirus-live-updates/2020/04/02/825383525/6-6-million-file-for-unemployment-another-dismal-record)

1 According to the Congressional Budget office (CBO), the number of new jobless claims in the week ended on March 28 was about 10 times larger than it had been in any single week during the Great Recession.

The U.S. economy shed 701,000 jobs in March, and the unemployment rate jumped to 4.4% (from 3.5% in February), the highest rate in more than 2½ years and the largest one-month increase since January 1975. The data doesn't yet fully reflect the millions of unemployment-insurance claims individuals filed in the last two weeks of March due to the coronavirus pandemic. In those two weeks, nearly all of the jobs gained in the last five years have been lost. This is only the start of a labor-market collapse that could push the U.S. unemployment rate to record highs.

Consumer spending, the major driver of growth in 2019 (chart 2), is currently looking vulnerable as wealth and disposable incomes shrink amid job losses and a collapse in stock markets. The decline in business investment, which started last year, is now expected to gather speed as a result of weakening demand.

CHART 2:
CONTRIBUTIONS TO U.S. GROWTH: 2019
(Percentage)



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

Three stimulus packages were approved by the U.S. Congress in March, aiming to limit the hit of the COVID-19 crisis to households and businesses. The Federal Reserve has cut interest rates to the zero-lower bound, offered unlimited quantitative easing, and deployed old tools (used in the 2008 financial crisis) and new, aimed at keeping financial markets functioning. Regardless, GDP decline in the first half of the year is set to be of a historic magnitude.

The Congressional Budget Office (CBO) expects that the U.S. economy will contract sharply in the second quarter of 2020 (more than 7%), as a result of the continued disruption to businesses stemming from the spread of the coronavirus. The unemployment rate is expected to exceed 10% during the second quarter, in part reflecting the record 10 million new unemployment insurance claims filed in the last two weeks of March. New 10-year economic forecasts (usually twice a year) have not been released yet.

A U.S. recession in the first half of the year is now the baseline forecast according to market projections. The catalysts are the COVID-19 crisis, the plunge in global oil prices, and the wild volatility in equity markets. The outlook remains highly uncertain and constantly changing, however, as new estimates of the impact of the pandemic are made and government actions further restricts the population's mobility and economic activity. As of March 31, market forecasters expected a decline of 2% in the first quarter and of 18% in the second, on average (table 1). The expected GDP decline in the first quarter ranges from -10% (J.P. Morgan) to +1.2% (Wells Fargo). In the second quarter, it ranges from -27% (TD Bank Financial Group) to -12% (Bank of America/Merrill Lynch and Capital Economics). For now, though most forecasters expect a bounce in the third quarter due to the support provided by the fiscal stimulus and to the assumption that COVID-19 infections will peak before the summer, the outlook is extremely uncertain.

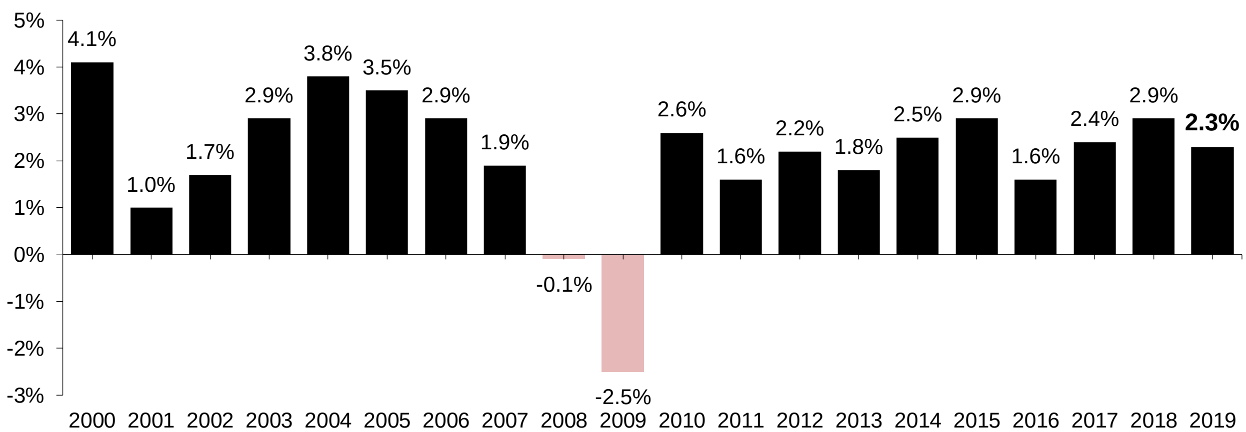
TABLE 1:
QUARTERLY FORECASTS FOR U.S. ECONOMIC GROWTH

	Q1 2020 (qoq)	Q2 2020 (qoq)	Q3 2020 (qoq)	Date of Forecast
What Markets Say				
Bank of America/Merrill Lynch	0.5%	-12.0%	3.0%	27-Mar-20
Capital Economics	0.0%	-12.0%	4.0%	1-Apr-20
JPMorgan	-10.0%	-25.0%	11.0%	27-Mar-20
Moody's Economy.com	-2.5%	-18.3%	10.9%	27-Mar-20
Mortgage Bankers Association	-1.2%	-12.9%	-1.9%	2-Apr-20
TD Bank Financial Group	-1.9%	-27.0%	12.8%	25-Mar-20
Wells Fargo/Wachovia	1.2%	-14.7%	-6.3%	25-Mar-20
Forecasts average	***-2.0%***	***-17.4%***	***4.8%***	

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

On an annual basis, a recession is expected in 2020. In 2019, the U.S. economy grew 2.3% (chart 3). On average, market projections point to a decline of 2.2% in 2020 and growth of 3% in 2021 (table 2). However, when looking only at the more recent market projections, made on March 25 and after, the U.S. GDP is projected to decline -3.3% in 2020 on average, a bigger contraction than in 2009 (-2.5%), and to grow 3.4% in 2021.

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



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

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*	2.0%	1.9%	1.9%	2.0%	3.5%	3.6%	1.6%	1.9%	Dec-19
CBO	2.2%	1.9%	2.4%	2.5%	3.5%	3.5%	na	na	Jan-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	-0.8%	1.9%	1.2%	1.9%	7.5%	8.6%	0.13%	0.6%	27-Mar-20
Capital Economics	-5.5%	6.5%	na	na	na	na	na	na	1-Apr-20
JPMorgan	-5.3%	na	1.4%	na	6.4%	na	0.25%	na	27-Mar-20
Moody's Economy.com	-2.9%	4.9%	0.7%	2.2%	7.2%	6.3%	0.13%	0.13%	2-Apr-20
Mortgage Bankers Association	0.6%	2.1%	2.0%	1.9%	3.9%	4.2%	0.63%	1.63%	6-Mar-20
National Association of Realtors	2.4%	1.8%	2.0%	2.0%	3.6%	3.9%	1.70%	2.10%	Jan-20
National Bank of Canada	-3.4%	3.0%	1.9%	2.6%	3.5%	3.5%	1.00%	1.50%	27-Mar-20
TD Bank Financial Group	-3.5%	3.6%	2.3%	2.2%	6.4%	4.3%	0.25%	0.30%	25-Mar-20
The Economist Intelligence Unit	1.7%	1.9%	1.8%	1.9%	4.2%	4.3%	1.4%	1.4%	15-Mar-20
Wells Fargo/Wachovia	-2.4%	1.1%	1.3%	1.8%	7.0%	7.4%	0.25%	0.25%	25-Mar-20
Market Average	***-2.2%***	***3.0%***	***1.5%***	***2.2%***	***5.8%***	***5.6%***	***0.6%***	***0.8%***	
C. What International Organizations Say									
United Nations DESA (Baseline)	1.7%	1.8%	na	na	na	na	na	na	Jan-20
World Bank	1.8%	1.7%	na	na	na	na	na	na	Jan-20
OECD*	1.9%	2.1%	na	na	na	na	na	na	Mar-20
IMF	2.0%	1.7%	na	na	na	na	na	na	Jan-20

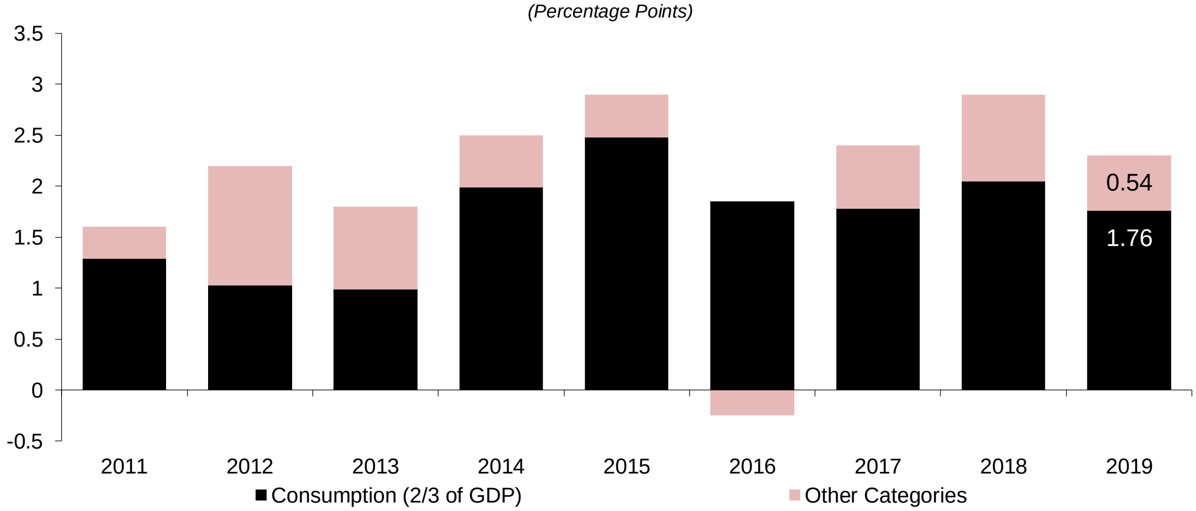
Source: ECLAC Washington Office based on official and market sources.
Note: FED: Federal Reserve; CBO: Congressional Budget Office; OMB: Office of Management and Budget (U.S. Administration's forecasts).
*Forecast for PCE inflation.

I. 2019 in review

U.S growth in 2019 (2.3%) declined relative to 2018 (2.9%), breaking with the upward trend since 2016. The core of the U.S. economy – consumption and residential investment – contributed 1.70% to growth compared to a contribution of 1.99% in 2018. However, it was consumption that really drove growth in 2019. It contributed 1.76% and accounted for 77% of total growth in 2019, while residential investment actually subtracted -0.06% from annual growth. Other categories contributed 0.54% (chart 4).

The increase in real GDP in 2019 reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, federal government spending, state and local government spending, and private inventory investment that were partly offset by a negative contribution from residential fixed investment. Imports increased.

CHART 4:
CONTRIBUTIONS TO U.S. REAL GDP GROWTH
(Percentage Points)

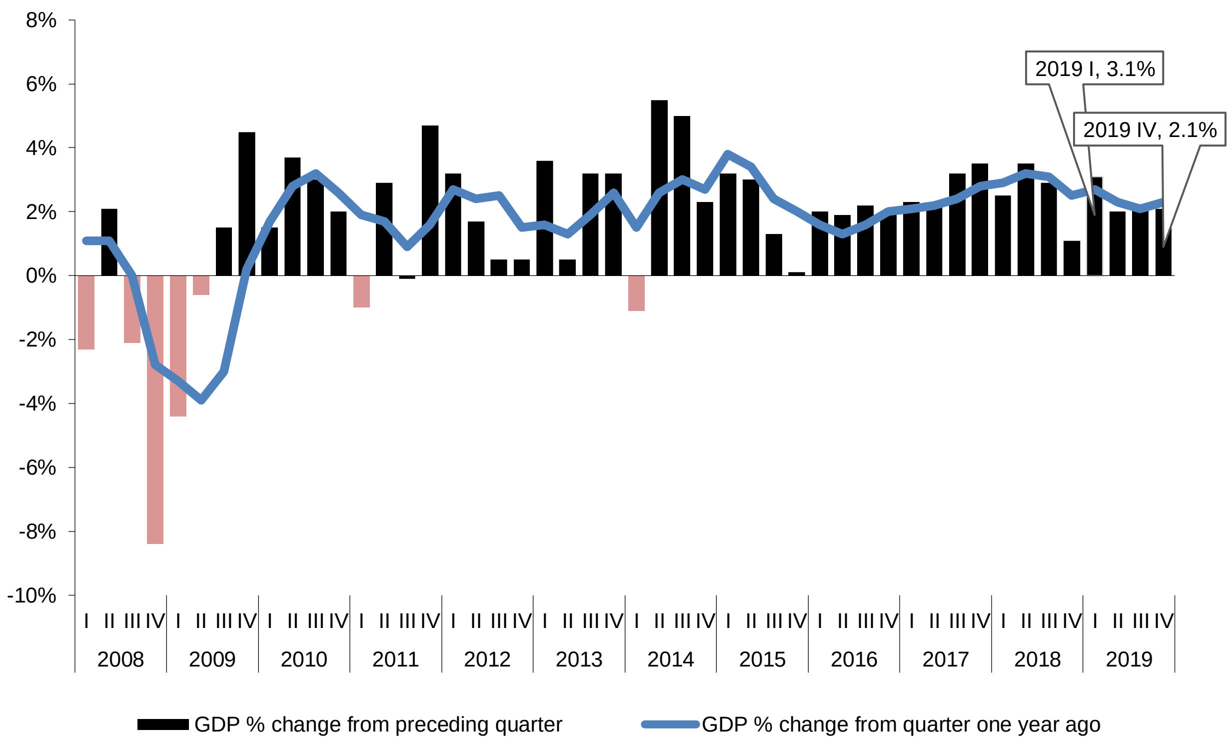


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

A. Quarterly GDP Growth

According to the final estimate released by the U.S. Department of Commerce on 26 March 2020, the U.S. economy grew at an annual rate of 2.1% in the fourth quarter of 2019, a decline from the rate of 3.1% in the first quarter (chart 5). The U.S. government will release its initial estimate for the first quarter of 2020 on 29 April 2020, and a decline in growth is expected, followed by an even worse decline in the second quarter. Projections for GDP growth in the second quarter point to a record-shattering decline.

CHART 5:
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.

B. Industrial production

Industrial production, a measure of factory and utility output, increased at a seasonally adjusted 0.8% in 2019, according to data from the Federal Reserve (table 3). Trade tensions and the United Auto Workers strike in the third quarter contributed to make 2019 a harder year for manufacturing than 2018. The capacity utilization rate was 77.8% in 2019, a rate that is 2% below its long-run (1972–2018) average.

The ISM manufacturing index ended the year at its lowest level since 2009 and showed no evidence that the de-escalation in the trade tensions in the final months of the year had boosted manufacturers' sentiment. Based on a survey of purchasing managers at more than 300 manufacturing firms by the Institute for Supply Management (ISM), the index monitors changes in production levels from month to month, and the ISM survey captures both changes in manufacturing activity and sentiment.

TABLE 3:
U.S INDUSTRIAL PRODUCTION

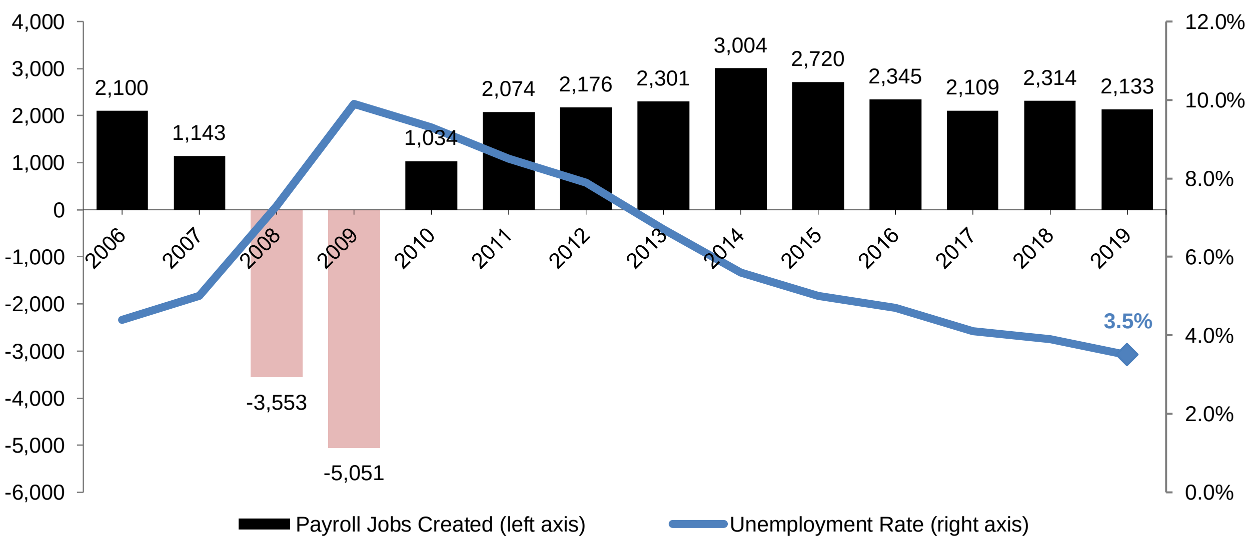
	Total Industrial Production		Capacity Utilization Rate
	Index 2012=100	Percentage Change From Previous Period	Total Industry (%)
2018 Q4	**110.3**	**3.9**	**79.4**
October	109.9	0.2	79.3
November	110.5	0.5	79.6
December	110.6	0.0	79.5
Annual	**108.6**	**3.9**	**78.7**
2019 Q1	**109.8**	**-1.9**	**78.6**
January	110.1	-0.4	79.0
February	109.6	-0.5	78.5
March	109.7	0.1	78.4
2019 Q2	**109.2**	**-2.3**	**77.8**
April	109.0	-0.6	77.8
May	109.2	0.2	77.8
June	109.3	0	77.7
2019 Q3	**109.5**	**1.1**	**77.6**
July	109.1	-0.2	77.4
August	109.9	0.7	77.8
September	109.5	-0.3	77.4
2019 Q4	**109.3**	**0.1**	**77.2**
October	109.0	-0.4	77.0
November	110.0	0.9	77.5
December	109.5	-0.4	77.1
Annual	**109.4**	**0.8**	**77.8**

Source: ECLAC Washington Office, based on data from U.S. Federal Reserve, Industrial Production and Capacity Utilization
Note: Quarterly changes are at annual rates. Annual changes are calculated from annual averages.

C. Labor market

The U.S. economy added 2.1 million jobs in 2019 (chart 6). It was the tenth consecutive year of job growth since the financial crisis. The unemployment rate finished the year at a historic low of 3.5%, the lowest level in 50 years (since 1969).

CHART 6:
THE U.S. LABOR MARKET: ANNUAL JOB CREATION AND UNEMPLOYMENT RATE
(Average Monthly Job Growth (left axis); Percentage Points (right axis))



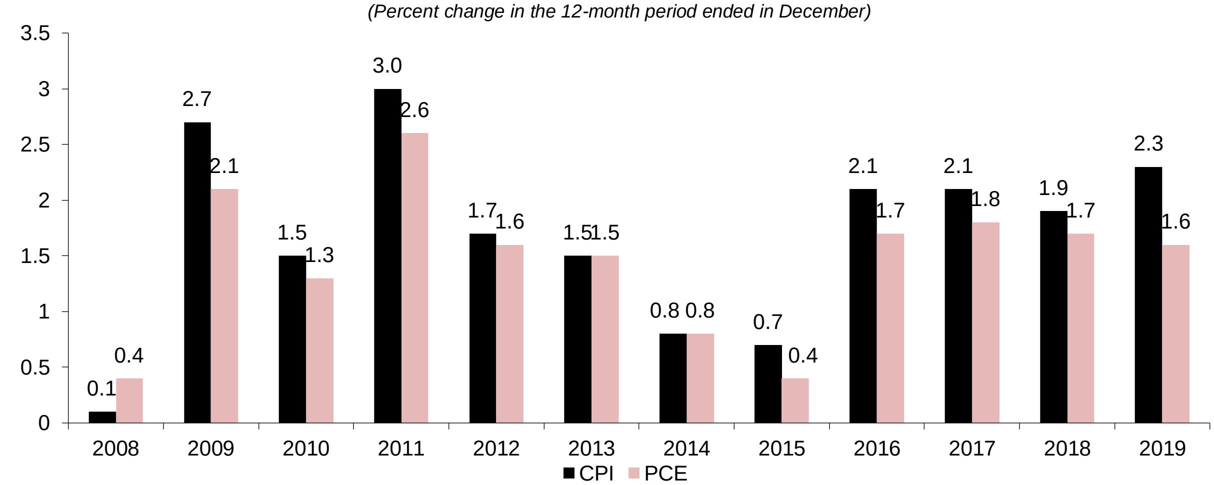
Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

However, the longest stretch of job creation in U.S. history, 113 months in a row, came to a halt in March 2020, when 701,000 jobs were lost. It was the biggest monthly drop since the depths of the Great Recession in 2008-2009. It was underlined by a net loss of 459,000 jobs in the leisure and hospitality sectors. But this is only the beginning, since the numbers just reflect the first half of the month (when the data was collected), which was before jobless claims to the order of 10 million were filed.

D. Inflation

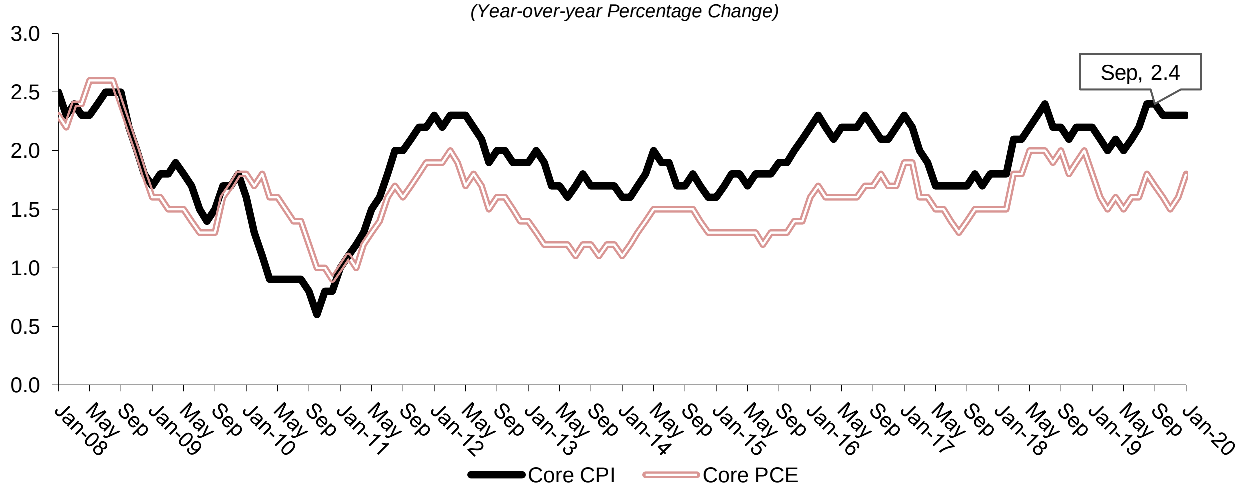
The Consumer Price Index for All Urban Consumers (CPI-U) —which measures the costs of everyday goods and services from food to dental care—advanced 2.3% in 2019, up from the 2018 increase of 1.9%. Although the annual inflation rate was the largest for a calendar year since 2011 (chart 7), the U.S. consumer inflation continues to be well contained. Prices excluding food and energy also increased 2.3% in December from a year earlier, a touch higher than in 2018 but down from 2.4% in September (chart 8).

CHART 7:
U.S. DOMESTIC PRICES: ANNUAL EVOLUTION
(Percent change in the 12-month period ended in December)



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

CHART 8:
U.S. CORE CONSUMER PRICE INDICES
(Year-over-year Percentage Change)

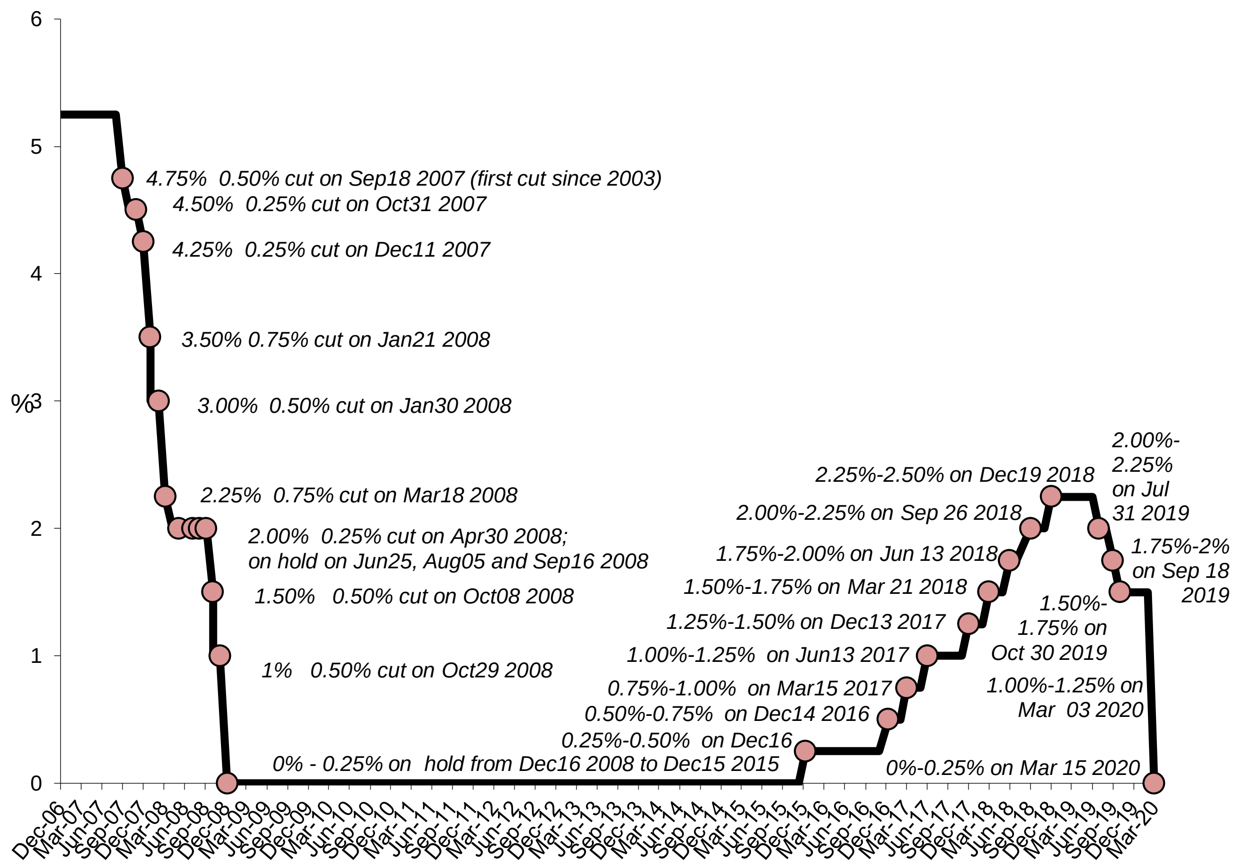


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics (BLS), Department of Labor and the Bureau of Economic Analysis (BEA), U.S. Department of Commerce.

E. Monetary policy

After the previous three-and-a-half years of normalization of interest rates following the vast monetary stimulus of the post-crisis decade, the Federal Reserve reversed the direction of its policy in 2019. In December 2018, the Fed put the plans for further tightening on hold, and at the meetings in July, September and October of 2019, the Federal Open Market Committee (FOMC) cut the target range for the fed funds rate by 0.25% each time, which as of end-December was at 1.5% to 1.75%. In March 2020, in response to the coronavirus crisis, the Fed cut interest rates back to zero (chart 9).

CHART 9:
U.S. FEDERAL FUNDS TARGET RATE
(Percentage)



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

F. Fiscal policy

The U.S. budget gap widened in fiscal 2019 to its largest margin in seven years. The government ran a US$ 984 billion deficit in the fiscal year that ended on September 30, 2019, a 26% increase from the US$ 779 billion deficit the previous year, according to the Treasury Department. As a share of GDP, the deficit represented 4.6% in fiscal 2019, up from 3.8% in 2018.

G. Financial conditions

In 2019, the Dow Jones Industrial Average, the S&P 500, and NASDAQ gained 18%, 24%, and 29%, respectively. By conventional measures, the bull market began in March 2009, when the S&P 500 bottomed after the global financial crisis, and it was a little more than 10 years old at the end of 2019, making it the longest in history.

However, the bull market came officially to an end in early 2020. On March 31, U.S. stocks closed out their worst quarter since the depths of the financial crisis, with markets reeling from the staggering losses caused by an economy paralyzed by the coronavirus. The S&P posted a 20% loss for the first quarter of 2020 – its biggest decline since 2008, and the Dow Jones Industrial Average's quarterly loss was 23%, its worst showing since 1987. The NASDAQ finished the quarter down 14%.

U.S. Treasury security yields declined in 2019. The decline in short-term Treasury yields was sharper than the declines in longer Treasury maturities (table 5). For the year, the 3-year, 10-year and 30-year Treasury yields fell 39%, 34% and 26%, respectively.

TABLE 4:

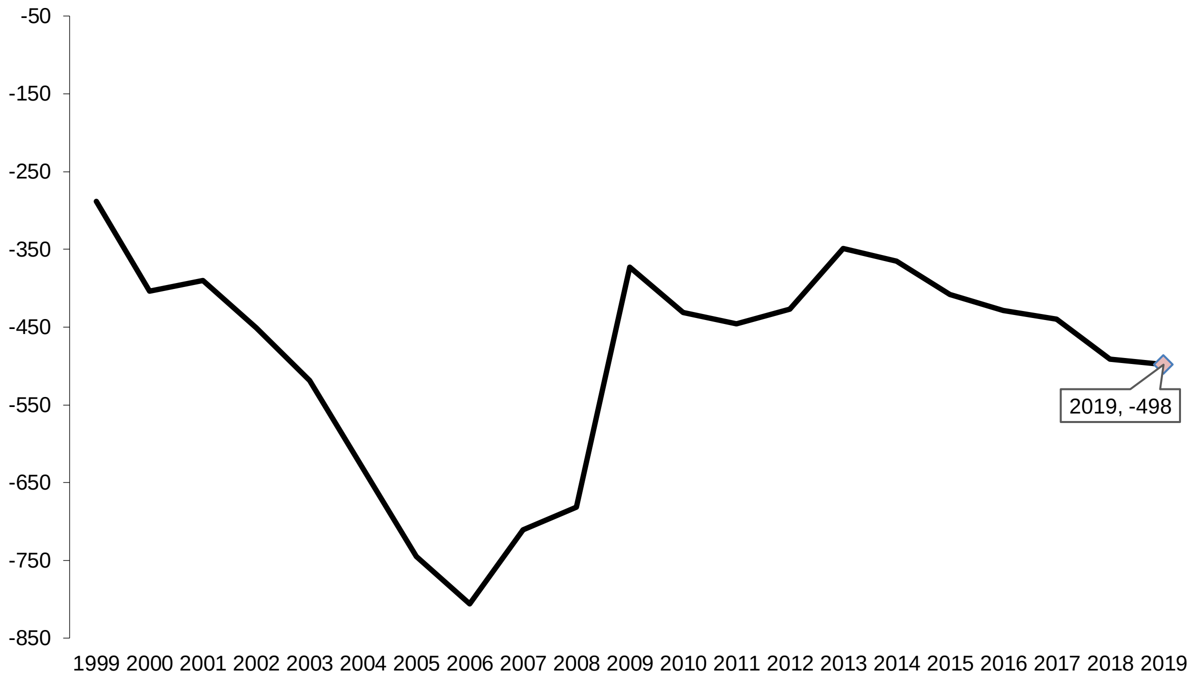
STOCK PRICES Monthly Stock Prices				U.S. TREASURY SECURITY YIELDS Constant Maturities			
				Monthly Yields			
2018	**Dow Jones Industrial Average**	**S&P 500**	**Nasdaq**	**2019**	**3-year**	**10-year**	**30-year**
December	23,805.55	2,567.31	6,814.29	December	2.67	2.83	3.1
2019				**2019**			
January	24,157.80	2,607.39	6,979.66	January	2.52	2.71	3.04
February	25,605.53	2,754.86	7,430.08	February	2.48	2.68	3.02
March	25,722.62	2,803.98	7,629.37	March	2.37	2.57	2.98
April	26,401.58	2,903.80	7,993.15	April	2.31	2.53	2.94
May	25,744.79	2,854.71	7,804.82	May	2.16	2.40	2.82
June	26,160.10	2,890.17	7,825.46	June	1.78	2.07	2.57
July	27,089.19	2,996.11	8,205.60	July	1.80	2.06	2.57
August	26,058.23	2,897.50	7,910.93	August	1.51	1.63	2.12
September	26,900.21	2,982.16	8,087.70	September	1.59	1.70	2.16
October	26,736.80	2,977.68	8,079.28	October	1.53	1.71	2.19
November	27,797.05	3,104.90	8,517.58	November	1.61	1.81	2.28
December	28,167.01	3,176.75	8,778.59	December	1.63	1.86	2.30

Source: Economic Indicators, U.S. Government

H. External sector

The U.S. current account deficit, the broadest measure of net exports to the rest of the world, increased to US$ 498 billion in 2019, from US$ 491 billion in 2018 (chart 10). While the U.S.-China trade war pummeled trade flows in 2019, 2020 will be marked by economic fallout from the COVID-19 pandemic. As countries have sought to contain the virus, global travel largely ground to a halt. This will show up in the current account statistics, as travel and transport services are classified as services exports. The impact will likely be sizable. Together those two categories accounted for over a third of service exports in 2019 and just under half of service imports.

CHART 10:
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.

II. COVID-19 and the U.S. economic policy response

Below it is a summary of the monetary, fiscal and industrial measures taken by U.S. policy makers as of 31 March 2020:

A. Monetary Policy

The Federal Reserve has cut interest rates, offered unlimited quantitative easing, and deployed old tools (used in the 2008 financial crisis) and new, aimed at keeping financial markets functioning. The situation remains highly uncertain, and the Federal Reserve has already used some instruments from its crisis arsenal, last used in the global financial crisis and Great Recession. To meet the dislocation the coronavirus pandemic unleashed on the economy, the U.S. central bank has moved faster and farther than ever before.

Lowering Interest Rates

The Federal Reserve's Federal Open Market Committee (FOMC), which sets monetary policy for the United States, had two unscheduled meetings in March (March 3 and March 15).

First emergency interest-rate cut (0.5%): On March 3, the FOMC made the decision to lower the target range for the federal funds rate by 1/2 percentage point, to 1 to 1.25%. The central bank moved preemptively, trying to get ahead of the problem, but market reaction was mixed.

Second emergency interest-rate cut (1%): On March 15, the Fed cut U.S. interest rates further by a full percentage point, its second emergency rate cut of the month. It lowered the target range for the federal funds rate to 0 to 0.25%, with the FOMC statement saying that it expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals. This was the Fed using forward guidance, a tool from its crisis arsenal.

Quantitative Easing

On March 15, the Fed restarted its program of Quantitative Easing (QE), announcing it would increase its holdings of Treasury securities by at least US$ 500 billion and its holdings of agency mortgage-backed securities by at least US$ 200 billion over coming months to support the smooth functioning of markets for Treasury securities and agency mortgage-backed securities, which are central to the flow of credit to households and businesses. It would also reinvest all principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities.

On March 23, the Fed went further and committed to ***unlimited purchases*** of U.S. Treasuries and agency mortgage-backed securities. In its statement, it said it would now purchase Treasuries and agency mortgage-backed securities "in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy." The removal of caps on planned QE purchases also means that the Fed's balance sheet will increase markedly in size, as it becomes ensconced as the buyer of last resort across fixed-income markets.

Old and new tools

i. ***Discount window:*** On March 15, the Fed opened its discount window to commercial banks, and urged them to dip into their own capital buffers to extend lending to households and businesses, as the personal-contact service sectors of the economy grind to a halt with social-distancing becoming the norm. "These capital and liquidity buffers are designed to support the economy in adverse situations and allow banks to continue to serve households and businesses," the Fed said in its statement. "The Federal Reserve supports firms that choose to use their capital and liquidity buffers to lend and undertake other supportive actions in a safe and sound manner."

ii. ***Primary credit rate:*** On March 15, the Fed announced that it would lower the primary credit rate by 150 basis points to 0.25%. This was notable, as the discount rate was now equal to the overnight rate, an aggressive move by the Fed to remove the stigma that is associated with tapping the Fed's discount window.

iii. ***Reserve requirements:*** On March 15, the Fed eliminated reserve requirements, freeing up about US$ 140 billions of capacity for banks to redeploy into other areas such as the repo market that has recently suffered from a lack of capacity.

iv. ***Swap lines:*** On March 15, the U.S. central bank also announced coordinated action with peers from Canada, the UK, Japan and Europe, including the Swiss National Bank, to lower the cost of borrowing dollars internationally through existing swap lines.

The Federal Reserve, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank announced a coordinated action to enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements. These swap lines effectively allow global central banks to get access to dollars in exchange for their own currency. The central banks announced that the cost of borrowing dollars would be lowered to 0.25% above the fed funds rate. In addition to existing one-week operations, the Fed announced a new 84-day liquidity line would begin from March 16. "The swap lines. . . serve as an important liquidity backstop to ease strains in global funding markets, thereby helping to mitigate the effects of such strains on the supply of credit to households and businesses, both domestically and abroad," the Fed said in a statement.

With the cost of borrowing dollars for other currencies in foreign-exchange swap markets hitting levels not seen since the global financial crisis, the Federal Reserve, on March 19, broadened the swap lines to additional countries, including large emerging markets such as Brazil and Mexico as well as European nations including Denmark and Sweden. The Federal Reserve said the new swap lines – lasting at least six months – would provide US$ 60 billion each in dollar liquidity for the central banks of Australia, Brazil, South Korea, Mexico, Singapore and Sweden, as well as US$ 30 billion each for the central banks of Denmark, Norway and New Zealand.

v. ***Repo Market:*** The Fed has vastly expanded the scope of its repurchase agreement (repo) operations to funnel cash to money markets and it is essentially offering an unlimited amount of money. On March 16, after signs of strain emerged despite the emergency measures taken on the previous day, the Fed expanded further its intervention in short-term funding markets.[2] The New York arm of the central bank said it would be willing to provide and additional US$ 500 billion in overnight funding in the repo market, where investors swap high-quality collateral like Treasury notes for cash. The offer came on top of the previously announced Fed support for the repo market.

vi. ***Commercial Paper Funding Facility (CPFF):*** The Federal Reserve also threw a direct lifeline to corporate America on March 17, saying that it would begin buying commercial paper through a facility last invoked during the 2008 financial crisis. On March 23, the Fed announced that the Commercial Paper Funding Facility (CPFF) would be open to include high-quality debt issued by municipalities. The Fed established the new facility under section 13 (3) of the Federal Reserve Act, meaning it is acting with the approval of Steven Mnuchin, the U.S. Treasury secretary. The last commercial paper facility of the financial crisis was closed in 2010.

The US$ 1.1 trillion commercial paper market is a crucial source of funds for large companies looking to raise cash for short-term needs, and the Fed said it was stepping in to make sure they did not face a financing crunch. The goal of the CPFF is to support the flow of credit to households and businesses. Commercial paper markets directly finance a wide range of economic activity, supplying credit and funding for auto loans and mortgages as well as liquidity to meet the operational needs of a range of companies. By ensuring the smooth functioning of this market, particularly in times of strain, the Federal Reserve aims to provide credit that will support families, businesses, and jobs across the economy.

The facility is structured as a special purpose vehicle. The New York Fed will lend to the vehicle, and the vehicle will purchase highly rated three-month dollar-denominated commercial paper through the Fed's primary dealers. The U.S. Treasury department will in turn provide the New York Fed with US$ 10 billion worth of credit protection, to insure against losses.

vii. ***Primary Dealer Credit Facility (PDCF):*** On March 17, the U.S. Federal Reserve also took aggressive new action to shore up liquidity in financial markets, by allowing approved dealers in government debt, including the largest banks, to borrow cash against some stocks, municipal debt, and higher-rated corporate bonds. The move, which revived a tool used by the U.S. central bank during the last financial crisis, highlighted the Fed's concern for the health of the short-term funding markets which had been thrown into chaos by the coronavirus pandemic. In a statement, the Fed said its primary dealer lending facility would "allow primary dealers to support smooth market functioning and facilitate the availability of credit to businesses and households".

The PDCF offers overnight and term funding with maturities up to 90 days and became available on 20 March 2020. It will be in place for at least six months and may be extended as conditions warrant. Credit extended to primary dealers under this facility may be collateralized by a broad range of investment grade debt securities, including commercial paper and municipal bonds, and a

[2] The Fed announced during its January 2020 interest rate decision that it would be involved in the repo market until at least April 2020. As a result, the Open Market Desk expanded then its overnight and term repurchase agreement operations to improve market liquidity.

broad range of equity securities. The interest rate charged will be the primary credit rate, or discount rate, at the Federal Reserve Bank of New York.

viii. ***Money Market Mutual Fund Liquidity Facility (MMLF***): The MMLF (announced on March 18) makes loans available to eligible financial institutions backed by high-quality assets purchased by the institutions from money-market mutual funds. In a statement, the Fed said the facility would assist money-market funds "in meeting demands for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy." On March 20, the Fed expanded the MMLF to include certain municipal money-market funds, and on March 23, it said it would include a wider range of securities, including municipal variable-rate demand notes and bank certificates of deposit.

The facility was the third announced by the Fed in a week created by citing emergency powers to extend credit, following earlier efforts to backstop the market for short-term commercial debt and to expand lending to so-called primary dealers, the large financial institutions that function as the Fed's exclusive counterparties in markets.

Those facilities required the approval of Treasury Secretary Steven Mnuchin. The Fed said it would receive US$ 10 billion to cover potential losses from the Treasury from its Exchange Stabilization Fund (ESF).

ix. ***Term Asset-Backed Securities Lending Facility (TALF):*** On March 23, the Federal Reserve announced the relaunch of another crisis-era facility. TALF was used by the Fed in 2008 to support consumer and business credit markets. The facility gives the Fed the ability to buy securities backed by student, car and credit-card loans, as well as loans to businesses through the Small Business Administration.

x. ***Primary Market Corporate Credit Facility (PMCCF):*** On March 23 the Fed also announced a new facility, the PMCCF. Created to support new bond and loan issuance, this facility will lend to investment-grade companies and provide bridge financing of four years.

xi. ***Secondary Market Corporate Credit Facility (SMCCF):*** Another new facility announced on March 23. Created to provide liquidity for outstanding corporate bonds, this facility will buy corporate bonds issued by highly rated companies and U.S.-listed exchange-traded funds in the investment-grade corporate bond market.

TALF, PMCCF, and SMCCF are designed to support US$ 300 billion in new financing, and the Treasury Department will cover US$ 30 billion in losses.

TABLE 5:
NEW AND OLD FEDERAL RESERVE FACILITIES USED IN REPONSE TO THE PANDEMIC

New facilities	Old facilities
PMCCF	CPFF
SMCCF	PDCF
	MMLF
	TALF

Source: ECLAC Washington Office, based on data from the Federal Reserve. Note: Old facilities are tools used in the last financial crisis.

The Fed's balance sheet has grown to US$ 5.8 trillion as of April 1, with US$ 1 trillion being added over the last two weeks of March. The increase came mainly from purchases of Treasuries and Agency mortgage-backed securities, but the other key component was the expansion of cross-currency swap lines by US$ 349 billion, according to data from the central bank. On the liability side, deposits of depositary institutions (reserves) are the largest component at US$ 2.7 trillion.

The Fed moved on April 1 to exclude U.S. Treasury securities and deposits at Federal Reserve Banks from the Supplementary Leverage Ratio (SLR) through March 31, 2021. The decision was designed to address the rise in reserves and liquidity in the Treasury market. The statement said that “the Board is providing the temporary exclusion in the interim final rule to allow banking organizations to expand their balance sheets as appropriate to continue to serve as financial intermediaries, rather than to allow banking organizations to increase capital distributions, and will administer the interim final rule accordingly.”

Finally, the Fed also said it will soon roll out a Main Street Business Lending Program that will lend directly to small businesses. Such a program is likely to depend on additional money from the Treasury Department. According to the Fed statement released on April 6, “To facilitate lending to small businesses via the Small Business Administration's Paycheck Protection Program (PPP), the Federal Reserve will establish a facility to provide term financing backed by PPP loans. Additional details will be announced this week.” The PPP is part of Phase 3 of the fiscal measures passed by the U.S. Congress, which are discussed next.

B. Fiscal Policy

The U.S. Congress has passed three pieces of stimulus legislation as the U.S. fiscal response to COVID-19 took shape over the month of March.

Phase One

--Coronavirus Preparedness and Response Supplemental Appropriations Act, 6 March 2020: The first phase comprised US$ 8.3 billion in emergency spending for federal agencies fighting the spread of the virus, including US$ 3.4 billion for the Public health and Social Services Emergency Fund to research and develop new vaccines, therapeutics and diagnostics; US$ 1.9 billion for the Centers for Disease Control and prevention (CDC) to back up state and local government response efforts; and US$ 1.6 billion to fight the outbreak overseas.

Phase Two

--Families First Coronavirus Response Act, 18 March 2020: This second major bill provided paid sick leave, food assistance for vulnerable populations and financial help for the Coronavirus testing. It provided free testing for the COVID-19 disease caused by the virus and requires smaller employers to provide at least two weeks of paid sick leave to many of those affected by the crisis. It also increased Medicaid funding, expanded unemployment insurance and provided more money for food stamps, aiming to provide an initial safety net as layoffs begin and coronavirus cases hit every state.

Phase Three

--Coronavirus Aid, Relief, and Economic Security (CARES) Act, 27 March 2020: The bill is referred to by lawmakers as "Phase 3" of Congress’s coronavirus response, following the Families First Coronavirus Response Act (18 March 2020) and Coronavirus Preparedness and Response Supplemental Appropriations Act (6 March 2020). This third phase is about mitigation of the damage inflicted by the pandemic.

The legislation includes more than US$ 2 trillion (over 10% of GDP) in new spending and tax relief, making it the largest rescue package in U.S. history. The main provisions of the CARES Act are listed below:

MEASURES TO SUPPORT HOUSEHOLDS

i. ***Cash payments:*** roughly US$ 300 billion in total. The bill provides direct payments of US$ 1,200 per adult (plus US$ 500 per child) for those with gross annual income of less than US$ 75,000 (US$ 150,000 for a couple filing jointly). The direct grants are phased out for upper income brackets, and are not available for individuals without children earning over US$ 99,000 and married couples without children earning over US$ 198,000. Payments are structured as tax refunds to allow the Internal Revenue Service to distribute the funds quickly.

ii. ***Unemployment assistance:*** US$ 250 billion to expand eligibility for state unemployment insurance programs for those workers, including the self-employed, who are adversely affected by COVID-19 (including those with a sick family member or a child that is unable to attend school). Benefits will be provided for up to 4 months (until July 31). The CARES Act extends benefits to 29 weeks, from 26 weeks in most states and provides, in addition, a supplemental payment of US$ 600 per week for those eligible for assistance.

iii. ***Food assistance:*** US$ 25 billion for child nutrition programs and additional funding for food stamps (SNAP).

iv. ***Distributions from tax-advantaged retirement funds:*** Individuals will be allowed to make a coronavirus-related distribution of up to US$100,000 without penalty.

v. ***Tax delay:*** Tax filing deadlines for individuals will be delayed from April to July.

MEASURES TO SUPPORT BUSINESSES

i. ***Assistance to severely distressed sectors:*** US$ 500 billion for loans, loan guarantees or other aid to businesses – including the possibility that the government will take direct equity stakes in distressed companies. The assistance includes US$ 25 billion for passenger air carriers, US$ 4 billion for cargo air carriers, US$ 17 billion for businesses deemed critical to national security, and the remainder to backstop section 13(3) Federal Reserve facilities that purchase corporate obligations in primary or secondary market.

Companies receiving direct loans or loan guarantees will be asked to limit executive compensation to US$ 425,000 per year and not undertake share buybacks for at least one year. Businesses owned by the President, Vice President, members of Congress, or heads of federal agencies will be ineligible for support. This corporate assistance will be overseen by an independent inspector general and a congressional oversight panel.

ii. ***Assistance to small businesses (Paycheck Protection Loan Program (PPP)):*** roughly US$ 367 billion in Small Business Administration loans and guarantees to companies with up to 500 employees (including independent contractors and the self-employed) to cover payroll costs, mortgage/rent payments, utilities and health benefits. Emergency advances are to be provided on these loans within 3 days of the application and the total loan can be up to 250% of monthly payroll. The loans will be eligible for partial or total forgiveness depending on the extent to which the firm keeps its pre-crisis number of employees on payroll.

iii. ***Payroll tax deferral:*** Firms will be allowed to defer their payroll tax obligations for the remainder of the year (which would be paid in installments in 2021-22).

iv. ***Employee retention tax credit:*** The credit will provide incentives to businesses to keep workers on their payroll.

v. ***Delay in tax deadlines:*** Businesses can delay making their quarterly estimated tax payments until after October 15, 2020 and defer payroll tax payments until the end of the year.

OTHER PROVISIONS

i. ***US$ 180 billion for health-care spending***: Of that money, US$ 100 billion will fund hospitals and providers hit hardest by the outbreak, which could be used for protective gear for health-care workers, testing supplies and emergency operation centers. The legislation increases funding for community health centers; Medicare payments; telehealth and home service; and public health agencies. The bill also includes a range of measures to address, and prevent in the future, medical supply shortages (including through the Defense Production Act).

ii. ***US$150 billion in transfers to state and local governments*** to address spending shortages related to the pandemic, distributed according to population size. A municipality could apply to receive aid directly, reducing the amount available to the rest of the state.

iii. ***US$ 31 billion in education funding*** to support local schools and colleges, and more flexible treatment of financial aid and student loans.

iv. ***US$ 25 billion for transit systems*** to make up for revenue lost because of dwindling ridership.

Finally, the bill includes resources for economic development assistance and to fund the use of the national guard and other armed forces and also introduces technical changes to the Families First Coronavirus Response Act (e.g. to cap employer payments for paid leave provided under the Act).

C. Industrial Policy

The Defense Production Act (DPA): announced on March 19, the DPA is a law that has its origins in the War Powers Acts of World War II, which granted the executive branch broad powers to direct industrial production for the war effort. Those authorities were allowed to expire when the war was over, but in 1950, after Soviet-backed North Korea invaded South Korea, President Harry Truman revived those lapsed powers by persuading Congress to enact the DPA. The law contains a section that authorizes the president to control the production and distribution of scarce materials deemed "essential to the national defense."

The U.S. government is able to make contracts with industry under the law prioritizing the production of goods in scarce supply. It can also provide loan guarantees or lend money directly to targeted industries, and it can shield them from anti-trust actions resulting from firms cooperating and planning with one another. And if those incentives prove insufficient, administration officials can also use what's called an "allocation authority" — namely, telling firms that the government has the right to purchase their products above anyone else.

In response to the pandemic, President Trump signed two executive orders and two memoranda citing provisions of the DPA:

i. The first (*Executive Order on Prioritizing and Allocating Health and Medical Resources to Respond to the Spread of Covid-19, 18 March 2020*) delegates the president’s powers to prioritize contracts and allocate resources to the Health and Human Services Department.

ii. The second (*Executive Order on Preventing Hoarding of Health and Medical Resources to Respond to the Spread of COVID-19, 23 March 2020*) includes measures to prevent people from hoarding health and medical resources.

iii. The DPA had not been used to direct industries until the end of March. On 27 March 2020, through a Presidential Memorandum (*Memorandum on Order Under the Defense Production Act Regarding General Motors Company*, *27 March 2020*), the President required General Motors Company to accept, perform, and prioritize contracts or orders for the number of ventilators that the Secretary of Health and Human Services determines to be appropriate.

iv. On 2 April 2020, through the *Memorandum on Order Under the Defense Production Act Regarding 3M Company*, the President directed that the Secretary of Homeland Security, through the Administrator of the Federal Emergency Management Agency (FEMA), shall use any and all authority available under the DPA to acquire, from any appropriate subsidiary or affiliate of 3M Company, the number of N-95 respirators that the Administrator determines to be appropriate.

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

Since the outbreak of the coronavirus pandemic, demand for U.S. dollars has surged, increasing funding costs and putting a strain on corners of the financial markets that do not have readily available access to those dollars. On March 19, the U.S. Federal Reserve broadened its U.S. dollar liquidity swap line arrangements to additional countries, including Brazil and Mexico in Latin America and the Caribbean (LAC). The swap lines have helped ease some of the strain in financial markets, but according to a study of the Bank for International Settlements (BIS) more needs to be done. Highlighting the difference between the current crisis and that of the prior global financial crisis in 2008, the BIS said policies that reach beyond the banking sector to final users are required.

The combination of the coronavirus pandemic and steep drop in global oil prices has led to outflows from emerging market debt and equity funds in March, according to the Institute of International Finance (IIF). These outflows were broad-based, affecting all emerging markets. Regarding LAC markets specifically, Moody's Investor Service on 2 April 2020 revised its outlook for the LAC asset management industry to negative from stable citing the impact of the global market rout underway in the wake of the coronavirus and COVID-19. Financial conditions for LAC issuers have thus become more constrained and are expected to remain constrained for the foreseeable future.

IV. Looking ahead

The longest growth expansion in U.S. history is coming to an end as the coronavirus pandemic is pushing the U.S. economy into a severe downturn. The U.S. economy shed 701,000 jobs in early March, ending 113 months of continuous job growth. According to a study from Moody's Analytics, the unprecedented measures taken in the attempt to contain the spread of the coronavirus have led to a pause of about one-fourth of the U.S. economy.

The fiscal and monetary stimulus announced by the United States and by other world major economies over the past month have no precedent in peacetime. The increase in fiscal spending and loans in the U.S. this year alone will reach more than 10% of GDP, larger than the rise in the federal deficit through 2008 and 2009. The Fed's total balance sheet size increased by more than half a trillion dollars in a single week, roughly twice the pace of the next-largest weekly expansion in the financial crisis in October 2008. The Fed's accumulation of assets has grown to US$ 5.8 trillion (as of April 1), with US$ 1 trillion added over the last two weeks of March, according to data released by the central bank.

Looking ahead, the U.S. economy will face challenging times. How long the lockdown will last, and what type of economic recovery will take place after that, will depend on the trajectory of the disease itself, which is beyond economists' ability to forecast, and on how effective the measures to contain the spread of the virus and fight its consequences will be. Rather than sounding a decisive "all clear," health authorities are likely to advocate a gradual return to normal working life, so the behavior known as "social distancing" may linger. Finally, much will depend on the recovery of business activity and employment.

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