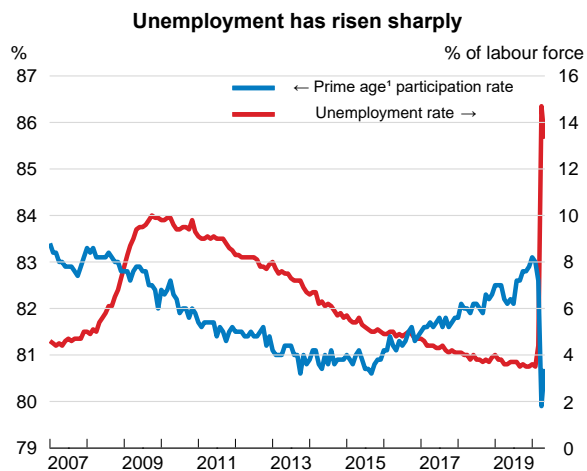
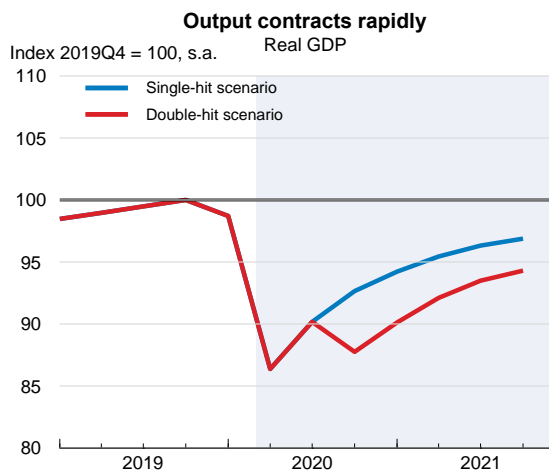


United States

The COVID-19 outbreak has brought the longest economic expansion on record to a juddering halt. GDP contracted by 5% in the first quarter at an annualised rate, and the unemployment rate has risen precipitously. If there is another virus outbreak later in the year, GDP is expected to fall by over 8% in 2020 (the double-hit scenario). If, on the other hand, the virus outbreak subsides by the summer and further lockdowns are avoided (the single-hit scenario), the impact on annual growth is estimated to be a percentage point less. The unemployment rate will remain elevated after states lift their shelter-in-place orders, reflecting ongoing difficulties in sectors such as hospitality and transportation, and the sheer scale of job losses. With unemployment remaining high, inflation is projected to stay low, although less so if subsequent lockdowns are avoided.

Massive monetary and fiscal responses have shielded households and businesses, but more will be needed to reduce lingering effects such as large numbers of bankruptcies and labour-market exits. Complementary payments to augment unemployment insurance should continue, while the tax burden of households and businesses should be lowered when they are directly affected by the lockdown. Additional support will be needed to help workers return to work. Some states and local governments will face financial difficulties as their main revenue sources have dried up, and their debt burden will need to be addressed. Importantly, well-designed public financial support for developing a vaccine and treatment of COVID-19 could help prevent a recurrence of a pandemic again leading to deaths and debilitating the economy.

United States 1



1. Defined as the 25-54 year olds.

Source: OECD Economic Outlook 107 database; and US Bureau of Labor Statistics.

StatLink  <https://doi.org/10.1787/888934141000>

United States: Demand, output and prices (double-hit scenario)

	2016	2017	2018	2019	2020	2021
	Current prices USD billion	Percentage changes, volume (2012 prices)				
United States: double-hit scenario						
GDP at market prices	18 715.0	2.4	2.9	2.3	-8.5	1.9
Private consumption	12 748.5	2.6	3.0	2.6	-9.4	2.6
Government consumption	2 671.4	0.6	1.7	1.8	2.5	2.0
Gross fixed capital formation	3 786.9	3.7	4.1	1.8	-9.5	0.8
Final domestic demand	19 206.8	2.5	3.0	2.3	-7.8	2.1
Stockbuilding ¹	27.1	0.0	0.1	0.1	-0.8	0.0
Total domestic demand	19 233.8	2.6	3.1	2.4	-8.5	2.1
Exports of goods and services	2 220.6	3.5	3.0	0.0	-11.1	-0.6
Imports of goods and services	2 739.4	4.7	4.4	1.0	-11.0	0.7
Net exports ¹	- 518.8	-0.3	-0.3	-0.1	0.3	-0.2
<i>Memorandum items</i>						
GDP deflator	–	1.9	2.4	1.7	1.7	1.6
Personal consumption expenditures deflator	–	1.8	2.1	1.4	1.2	1.1
Core personal consumption expenditures deflator ²	–	1.6	2.0	1.6	1.4	1.0
Unemployment rate (% of labour force)	–	4.4	3.9	3.7	12.9	11.5
General government financial balance (% of GDP)	–	-4.3	-6.7	-7.3	-16.8	-11.8
General government gross debt (% of GDP)	–	105.7	106.7	108.5	131.8	139.9
Current account balance (% of GDP)	–	-2.3	-2.4	-2.3	-2.1	-2.2

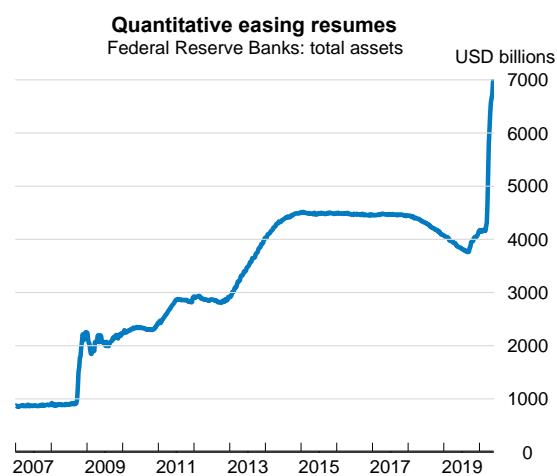
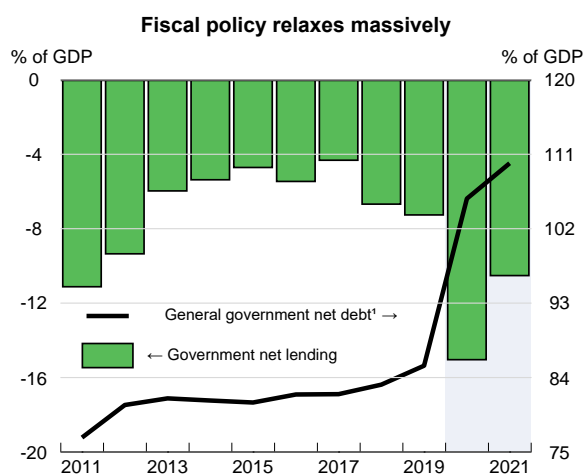
1. Contributions to changes in real GDP, actual amount in the first column.

2. Deflator for private consumption excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink  <https://doi.org/10.1787/888934138929>

United States 2



1. General government shows the consolidated (i.e. with intra-government amounts netted out) accounts for all levels of government (central plus State/local) based on OECD national accounts. This measure differs from the federal debt held by the public, which was 79.2% of GDP for the 2019 fiscal year.

Source: OECD Economic Outlook 107 database; and Refinitiv.

StatLink  <https://doi.org/10.1787/888934141019>

United States: Demand, output and prices (single-hit scenario)

	2016	2017	2018	2019	2020	2021
	Current prices USD billion	Percentage changes, volume (2012 prices)				
United States: single-hit scenario						
GDP at market prices	18 715.0	2.4	2.9	2.3	-7.3	4.1
Private consumption	12 748.5	2.6	3.0	2.6	-7.8	6.2
Government consumption	2 671.4	0.6	1.7	1.8	2.3	1.3
Gross fixed capital formation	3 786.9	3.7	4.1	1.8	-8.2	3.2
Final domestic demand	19 206.8	2.5	3.0	2.3	-6.5	4.9
Stockbuilding ¹	27.1	0.0	0.1	0.1	-0.8	0.0
Total domestic demand	19 233.8	2.6	3.1	2.4	-7.2	4.9
Exports of goods and services	2 220.6	3.5	3.0	0.0	-10.2	3.6
Imports of goods and services	2 739.4	4.7	4.4	1.0	-10.0	6.7
Net exports ¹	- 518.8	-0.3	-0.3	-0.1	0.3	-0.5
<i>Memorandum items</i>						
GDP deflator	–	1.9	2.4	1.7	1.7	2.1
Personal consumption expenditures deflator	–	1.8	2.1	1.4	1.2	1.5
Core personal consumption expenditures deflator ²	–	1.6	2.0	1.6	1.4	1.2
Unemployment rate (% of labour force)	–	4.4	3.9	3.7	11.3	8.5
General government financial balance (% of GDP)	–	-4.3	-6.7	-7.3	-15.0	-10.5
General government gross debt (% of GDP)	–	105.7	106.7	108.5	128.8	133.0
Current account balance (% of GDP)	–	-2.3	-2.4	-2.3	-2.1	-2.5

1. Contributions to changes in real GDP, actual amount in the first column.

2. Deflator for private consumption excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink  <https://doi.org/10.1787/888934138948>

Several containment measures were implemented

Since the first case was recorded in late January, the spread of the virus has been rapid and now over one million Americans have been diagnosed as infected with COVID-19, with clusters in several metropolitan areas. Confinement measures decided in most states have helped to flatten the curve of new cases, but deaths are still rising fast, although the pace appears to be slowing, and there are large uncertainties about the future impact of the pandemic. The impact of COVID-19 on hospitalisation and mortality appears to disproportionately affect the elderly, black and African Americans, and men.

As COVID-19 started to spread, states implemented distancing strategies to slow the contagion. Most states closed schools and non-essential businesses, restricted public gatherings and ultimately issued shelter-in-place orders, with the first introduced in California in late March. Some states began to relax containment measures in late April, adopting a phased reopening of the economy. Typically, schools and bars, restaurants and places of entertainment remain closed, but other sectors can operate with some restrictions requiring distancing in the workplace and staggered shift times so workers do not need to travel during peak times or be at work during the same periods as others. The ambition is to replace non-pharmaceutical interventions, such as lockdowns, with increased testing and contact tracing while avoiding overburdening the health sector. At the federal level, support for testing provides a complement for state strategies to reopen their economies.

Economic activity has contracted sharply

Containment measures, business closures, and households staying at home have led to a severe contraction in economic activity. Activity in the entertainment sector and passenger transport has been decimated. This has provoked an unprecedented sharp increase in unemployment. Over 20 million workers lost their jobs in the space of a month, far quicker than during the 2008 financial crisis or even the Great Depression, and the unemployment rate surged to almost 15% in April before moderating slightly in May. To compound the COVID-19 shock, the oil price collapsed as supply overwhelmed storage capacity. By early May, drilling activity was down by 50% on the beginning of the year. Financial markets have shown signs of stress with yields surging in some markets and measures of asset prices falling by around one-fifth.

The policy responses have been large and rapid

Monetary and financial market policy reacted forcefully and quickly to the emerging crisis. The Federal Reserve dropped interest rates to 0-0.25% and announced the resumption of (unlimited) large-scale asset purchases, swelling the size of the balance sheet. Statements also made clear that interest rates would remain low, giving markets forward guidance. In response to concerns about credit markets freezing, a number of new credit facilities were introduced. Liquidity facilities have been created to underpin credit for securities firms, money market mutual funds, major companies and state and local governments. An additional facility to target lending to “main street” businesses is an innovation, expanding support to sectors traditionally far beyond the purview of monetary authorities. In addition, prudential regulators have temporarily relaxed some requirements for the financial sector, to avoid credit drying up.

Fiscal policy also reacted forcefully to the COVID-19 virus. Initial policy moves were relatively small and mainly targeted the medical response, but as the scale of the impact on the economy became clearer Congress passed a suite of budgetary acts to shield families and businesses. Cumulatively these acts will see budget deficits balloon in the short term, raising debt levels by over 20% of GDP. One-off payments to all families and higher unemployment insurance payments helped to shield households from the shutdown. Congress has also authorised direct payments to distressed industries, such as airlines. Credits are available for other companies. For small businesses, these loans become grants if mainly used to support payrolls, as policymakers recognised the importance of keeping workers attached to businesses. In addition, some funds have been directed to support state governments that have come under budgetary strain due to the fiscal cost of dealing with the COVID-19 outbreak at a time when their revenue sources are drying up.

The recovery will be protracted

The economy is set to climb out of the COVID-19 hole as states and sectors sequentially reopen. The economy is assumed to have been largely constrained by shelter-in-place measures through most of April and May, and assumed to be subject to smaller shutdowns again in October and November in the double-hit scenario that are avoided in the single-hit scenario. After these shutdowns the economy is reopened with restrictions lingering in sectors where distancing remains a concern even when a second shutdown is avoided. An unusually large share of the unemployed are on temporary furlough, which suggests that they will regain employment relatively quickly, providing robust rebounds in the short term as restrictions are relaxed. However, employment dropped dramatically and many workers have not retained attachments to employers. Reflecting similar difficulties in making employer-employee matches and workers dropping out of the labour force and only slowly re-entering as in the aftermath of the 2008 financial crisis, the unemployment rate is assumed to decline relatively gradually. Weakened consumer demand in conditions of elevated unemployment and heightened uncertainty will depress business investment. This is likely to

hold productivity growth back. With high unemployment rates, inflation is set to be quiescent throughout the projections.

Some industries, such as passenger transport and hospitality, will likely bear enduring scars from the COVID-19 crisis. Not only are they likely to be reopened after other businesses, but will also face reduced demand until a vaccine or an effective treatment for COVID-19 is available. Furthermore, businesses in exposed sectors had built up sizeable debts, with non-financial corporate debt around 140% of GDP. As a result, some businesses will face liquidity and solvency concerns, which could precipitate large-scale firm liquidation and dent prospects for a rapid recovery. More positively, the economy could rebound more strongly. In particular, effective contact tracing, treatment or even development of a vaccine would allay worries about the risks of the virus. As a result, the sectors more affected by distancing protocols would be able to reopen fully with a positive impact on employment and household incomes, and thereby consumption.

Continued policy support will be needed

Prospects for businesses, particularly small firms, are very uncertain. As the immediate support measures are withdrawn, some businesses will face liquidity concerns, which could easily transform into questions about solvency. Dangers of un-coordinated action by creditors could lead to fire sales of liquidated assets, provoking a further negative macroeconomic shock. Regulatory forbearance and continued liquidity support while the economy recovers, at least initially, would avoid a sharp shock in vulnerable sectors. While a large share of the unemployed are on furlough and should face no difficulties on returning to their employers, the sheer scale of unemployment suggests that many will face difficulties in re-entering employment quickly. As businesses reopen this concern will be alleviated for many, but additional action would help prevent other workers dropping out of the labour force and in some cases entering disability rolls. The current protests across the country also highlight the importance of ensuring a broad based recovery that does not leave behind disadvantaged groups who often only benefit when a recovery is well under way. In this context, federal, state and local governments should support job placement and retraining services. Finally, many local governments will face difficulties due to revenues collapsing and squeezes from balanced budget rules. Additional support from the federal government would help prevent an unwanted fiscal contraction while the economic recovery is still in its early stages. Finally, federal government support for the development of vaccines and treatments would potentially allow the economy to recover robustly.



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