

ECONOMIC NEWS

United States: Historic Drop in Real GDP

HIGHLIGHTS

- ▶ Real GDP plunged 9.5% between the first and second quarter, equivalent to a quarterly annualized drop of 32.9%.
- ▶ This is the biggest quarterly decline in U.S. real GDP since the data started being collected in 1950.
- ▶ With the exception of government expenditures (+2.7% annualized), all the other main components of real GDP pulled back significantly during the quarter.
- ▶ Domestic demand slid 28.2% (annualized) in the second quarter.
- ▶ Exports tumbled 64.1% (annualized) during the quarter while imports fell 53.4%. Accordingly, the trade balance improved somewhat.
- ▶ The annual revision of previous results did little to change the picture of the U.S. economy.

COMMENTS

As expected, the negative effects of COVID-19 not only officially plunged the U.S. economy into recession with a second straight quarterly decline in real GDP, but also resulted in a historic drop in production. The lockdown and public health measures implemented across the country in March and April prompted an exceptional decrease in consumer spending and residential and non-residential investment. Job losses multiplied, and the jobless rate shot up in the spring.

Fortunately, government support measures made a big difference. While the deterioration of the job market led to a drop of 24.6% (annualized) in employee earnings in the second quarter, government transfers to individuals jumped 856.2%. This allowed disposable income to grow 42.1% (annualized) in the second quarter. Along with the big drop in consumer spending, this led to an increase in the saving rate from 9.5% to 25.7%. In theory, this creates conditions that should facilitate the economic recovery.

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist

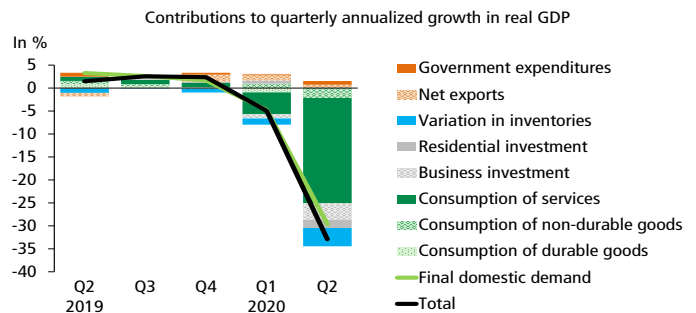
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2020, Desjardins Group. All rights reserved.

GRAPH

A fairly widespread drop in real GDP components



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

However, the gradual easing of lockdown measures begun in May has suffered a major setback in recent weeks, as the number of new COVID-19 cases and deaths has picked up again.

IMPLICATIONS

With rising fears about a second wave of COVID-19, the U.S. economy is not out of the woods yet. Depending on the public authorities' response, the expected rebound in real GDP over the coming quarters could be slowed down and the possibility of a new downturn in production cannot be completely ruled out.

Benoit P. Durocher, Senior Economist