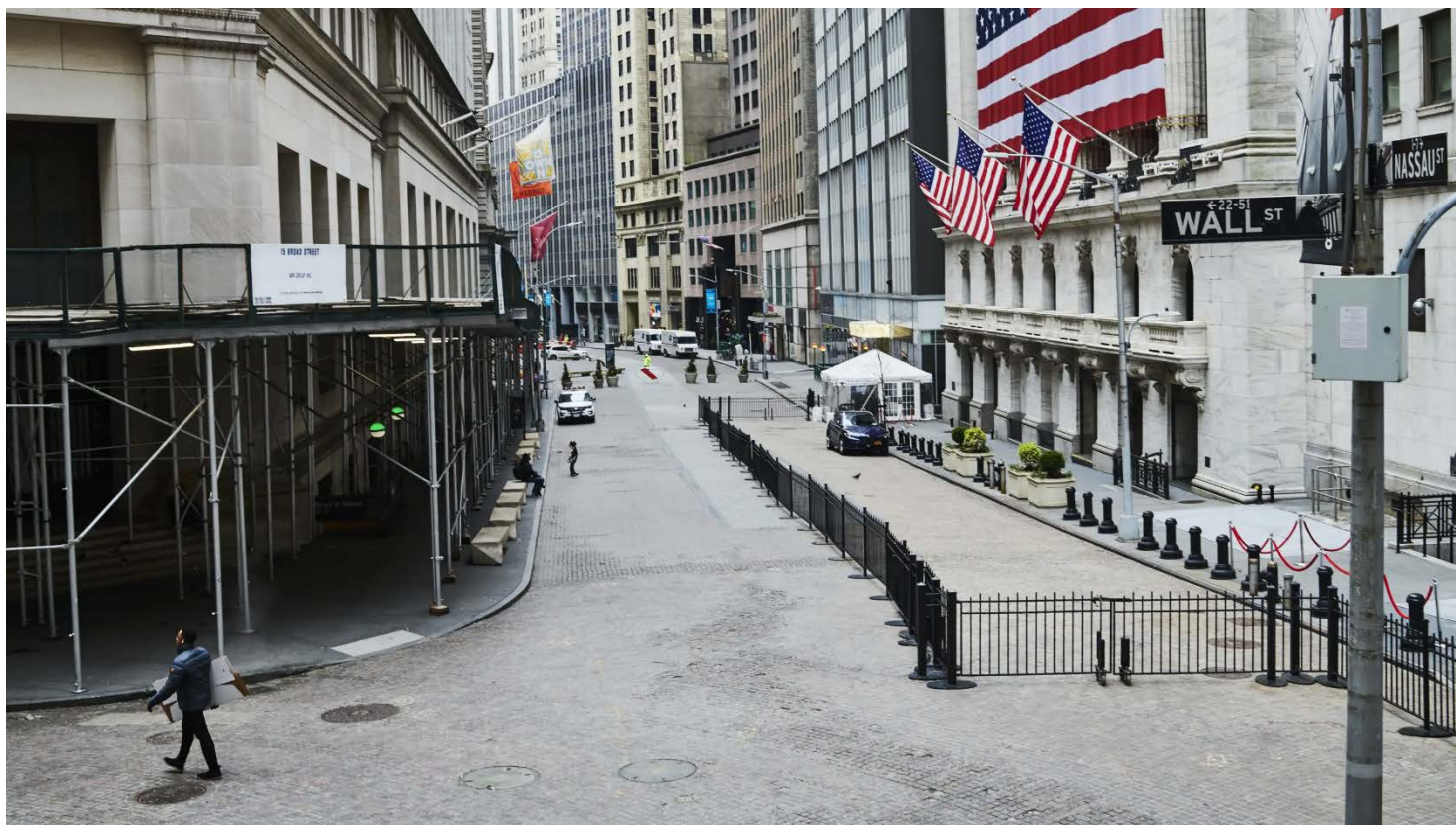


# FINANCIAL REVIEW

## The US Recovery Will Not be Fast

*Australian investors, households and policymakers can't afford to be sanguine about what's happening to the US economy.*



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By Jacob Greber

Washington

Australians watching the deadly results of America's failed preparation ahead of what Donald Trump warns [will be a week with "a lot of death"](#) can be forgiven for feeling relief. Relative to the brutal human disaster unfolding across the US, [Australia is having a benign pandemic](#).

That's a good thing and shows the benefit of taking short-term economic pain to avoid what's happening across America. But Australian investors, households and policymakers can't afford to be as sanguine about what's happening to the US economy.

Unlike the [policy and planning missteps](#) that have thrust America to the top of the global coronavirus leaderboard, the resulting economic fallout will very likely spill well beyond its borders. The problem – underscored by the dramatic jobs data of recent days – is that nobody can say with any authority how this will play out.

"We are really in a world of true uncertainty across many different dimensions all happening at the same time," said Harry Broadman, a former senior official to presidents George HW Bush and Bill Clinton and now managing director of emerging markets at Johns Hopkins University's Berkeley Research Group. "In that world, you don't even have a model in which you can make educated guesses based on past experience," he told *The Australian Financial Review*. "It's not a criticism. I just think we're at a frontier of thinking about things."

### Crisis like no other

The pandemic has created an economic crisis "like no other" said International Monetary Fund managing director Kristalina Georgieva on Friday (Saturday AEST). "It is way worse than the global financial crisis [of 2008-09]."

"Never in the history of the IMF have we witnessed a world economy come to a standstill."  
Former Dallas Fed president Richard Fisher said: "I'm rather pessimistic that it can be a quick recovery."

Until a few days ago most economists and investors told themselves the US downturn would be violent but shortlived, followed by an equally sharp rebound as the pandemic is brought under control and people go back to work. But that analysis ignores the scale and impact of what is now an unprecedented experiment.

The opening stages of that experiment have been brought to vivid life by labour force data released late last week. Some [10 million Americans filed initial jobless claims](#) since mid-March, when the shutdowns began, while payrolls plunged last month by 701,000 – seven times the drop expected by markets and the first fall in a decade.

The jobless rate shot up to 4.4 per cent from a near half-century low of 3.5 per cent. If the losses continued at that rate the jobless rate will rise by nearly half a percentage point per day, according to Justin Wolfers, the US-based Australian economist. For context, during the recently ended decade-long recovery the unemployment rate fell roughly by that much in a whole year.

What comes next may also be more widespread than many assume, with the pain spreading beyond the early, most vulnerable, victims in services sectors. As many as 24 million could lose their jobs this month, economists say, obliterating the gains of the past decade. "People are being way too sanguine about a lot of the white-collar industries," said US labour market economist Martha Gimbel. "This thing is going to come for us all."

### **Collapse in employment**

Many economists have been quick to point out that's exactly what happens when you shut down an economy overnight. Not only should it not surprise anyone, but neither should the stimulus-fuelled recovery that will be just as quick and powerful.

But the alternate reality – one that many fear is becoming more likely with every day – is that the collapse in employment is creating new, still-unseen, problems that will hinder and delay the rebound. When you slam a fast-cruising vehicle into a brick wall there's usually not much left of the car or the driver. Why expect the economy to be any different? Especially when the airbags of US fiscal policy were only installed after the event and are now being deployed during a fast-deteriorating crisis.

"The longer the economic shutdown continues, the more difficult the recovery will be," said Greg McBride, chief financial analyst at Bankrate. "Think of a bottle of wine crashing to the floor. A quick clean-up minimises the stain, but the longer it sits and pools, the deeper it seeps in."

The recovery "will be a process", warned Allen Sukholitsky, founder of Xallarap Advisory in New York.

"The economy will eventually recover, but not like a slingshot, as many financial institutions are predicting. Consumers are human, not robots ... [and] are unlikely to immediately begin spending the way that they did before the pandemic."

### **Concertina effect**

And then there's the speed of what's happening. There is simply nothing in history that compares or can be used as a reliable guide. "The speed of the viral outbreak has had a concertina effect, squeezing the negative economic impact of a major market event into days and weeks rather than months and quarters," said Edward Park, deputy chief investment officer at Brooks Macdonald.

"It took 200 days for the global equity market to move into bear market territory during the [2008-09] financial crisis, however it took just 20 days for the 20 per cent fall due to coronavirus," he said. With the coronavirus hotspot baton passing from Asia to Europe and now the US, the crisis has entered a decisive fresh phase: one in which markets are looking for clues to what the rebound will look like. US numbers offer few reasons for optimism at this point.

Speaking on the worst day of the US crisis so far – which saw New York's death toll hit 630 in a single day – state governor Andrew Cuomo said on Saturday the region's apex wasn't due for another four to eight days. Furthermore, the state isn't ready for what's about to happen. "We're still working on the capacity of the system, the more time we have to improve the capacity of the system, the better," Mr Cuomo said.

With such uncertainty, many investors and their advisers are primarily focused on scouring infection and fatality data for clues to when the "apex" will occur. "The economic outlook is intertwined with the COVID-19 outlook," Mr Sukholitsky said. "For economic forecasting purposes in the midst of a pandemic, monitoring the spread of the virus is among the most useful data points."

### **The recovery will not be fast**

Mr Park said last week's initial jobless claims data "underscores how important it is that new case growth slows to allow markets to look through the current very poor data".

Amid the confusion is coming a realisation that even in US regions that are able to reopen sooner, it will take longer for previous economic life to return. "The lingering financial effects on households will be decimated savings, higher debt levels, uncertain employment or income prospects, and a spike in consumer bankruptcies," Mr McBride said. "The economic shutdown was sudden, but the recovery will be anything but."

That's not good news for the rest of the world given most major economies from Europe to Japan were lagging the US when the crisis struck. "To reduce this down to how the US economy gets buffeted from this and then heals is just foolish, frankly myopic," said Dr Broadman, who served in the early 1990s as chief of staff to president Bush's Council of Economic Advisers and later as assistant trade representative under Bill Clinton. "That's where my friends who are macroeconomic forecasters frankly don't understand there are huge trans-boundary effects ... on supply chains and workers and so on."

While history is largely mute to what's unfolding, it can provide context. Consider that most economic disasters are triggered by war, policy blunder, or the build-up of excesses to distort supply or demand.

Dr Broadman said wars usually end with a truce "if people can see some rationality about why they shouldn't be killing each other". "When it's an economic crisis driven by overproduction or errors of judgment, we know that over time there's going to be an equilibrium," he said. "We can put bounds around the uncertainty there. But what's driving this are things we're not used to and even the scientists don't fully understand how this is going to play out. "That's why I'm very careful about not likening this to other events."

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