

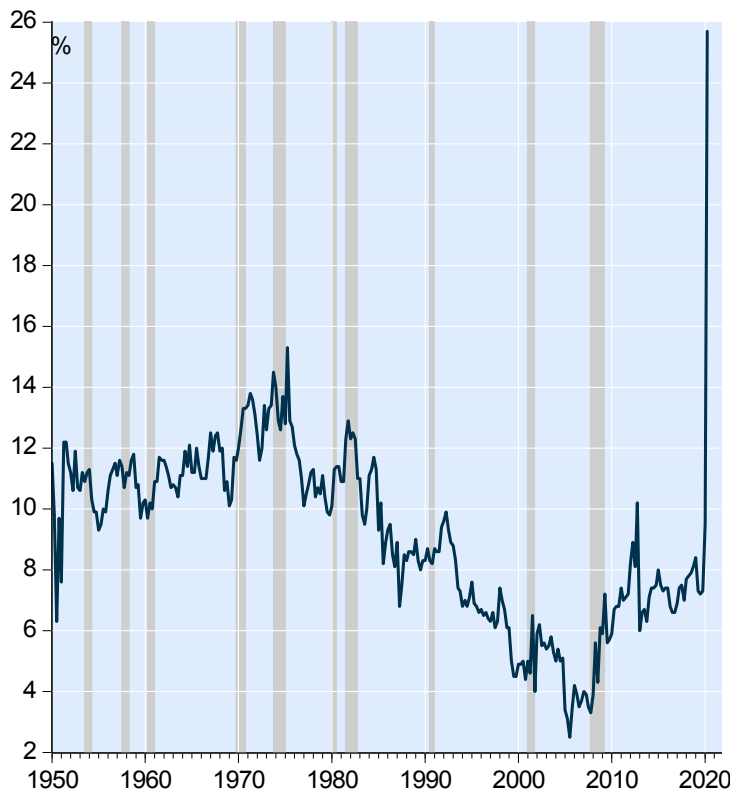
U.S. Watch

By Matthieu Arseneau/Jocelyn Paquet

We now have a fuller picture of this atypical downturn caused by the economic lockdown imposed to fight the COVID-19 pandemic. The recession may have lasted only two quarters but the drop in activity is unprecedented. Indeed, the record slump in output of 33% annualized in Q2 was an 8 standard deviation event, more than three times the size of the previous record dating back in 1958Q1 (-10%). Several elements of this morning's report show that the U.S. economy is in uncharted territories. The outsized loss during the quarter compared to other recessions was mostly due to the collapse of 43.5% in consumption on services, a category that generally holds up in economic downturns. Another unusual development was that despite labor market woes, household disposable income surged 33% on the back of generous transfer payment from government. With limited possibility to spend, the personal savings rate rose to a record high of 25.7%. As today's Hot chart shows, the rise in savings of \$3.1 trillion during the quarter is twice the drop in consumption spending meaning that some of this extra savings could support consumption in the months ahead. Does it mean that income support from government currently discussed at Congress is not needed anymore? Not so fast. There is reason to believe that most of the increase in savings came from people who actually kept their jobs and are not necessarily inclined to spend it all in the months ahead. Given the still sluggish labour market, a gradual approach must be taken to wean the U.S. economy from this extraordinary stimulus to household.

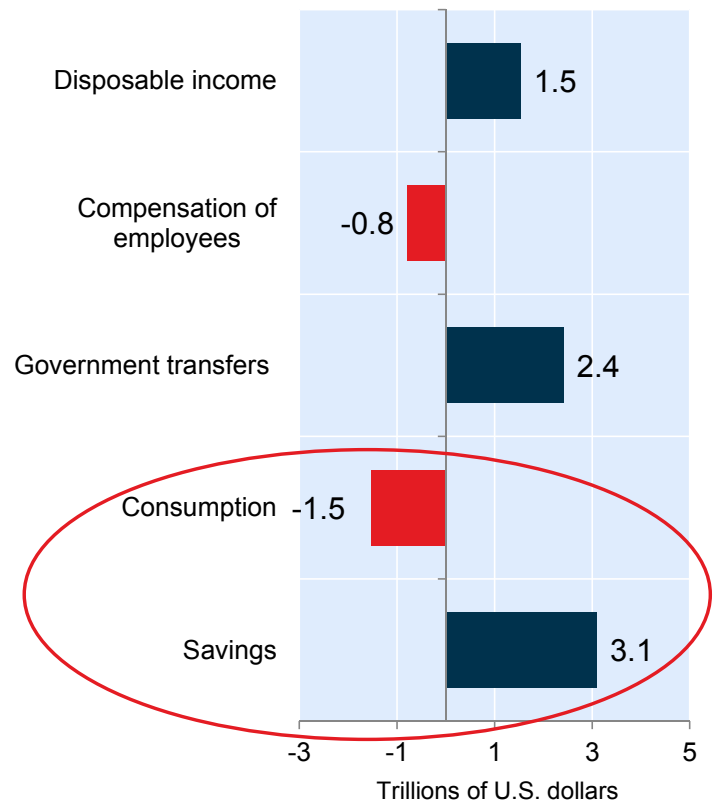
U.S.: Will savings save the day?

Personal savings as a percentage of disposable income



NBF Economics and Strategy (data via Datastream)

Change from Q1 to Q2 (annualized)





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