QNB Economics
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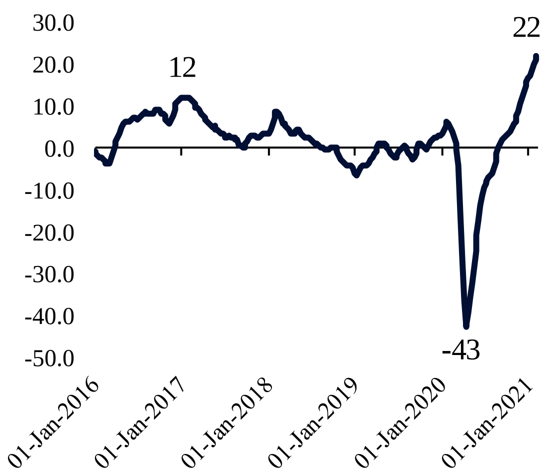
# Strong US economic recovery is set to continue

The US economy is in the middle of one of the most dramatic economic recoveries ever seen. After the US GDP collapsed by more than 31% annualized in Q2 2020, it rebounded strongly on the back of massive policy stimulus and a successful adaptation to the pandemic. US GDP printed annualized growth rates of 33% and 4% in Q3 and Q4 2020, respectively.

While the overall Covid-19 downturn was five times deeper than the average US contraction during a recession, it was extremely short in duration, lasting only about a quarter of the time of an average recession.

Importantly, the recovery is proving to be durable, lasting for several quarters and not showing any signs of receding, despite continuous waves of new Covid-19 cases. In fact, the US weekly leading index of economic activity, which is a composite of high-frequency data that tends to lead the business cycle by 3 to 10 months, still points to a rapid acceleration in activity at least for the next couple of quarters.

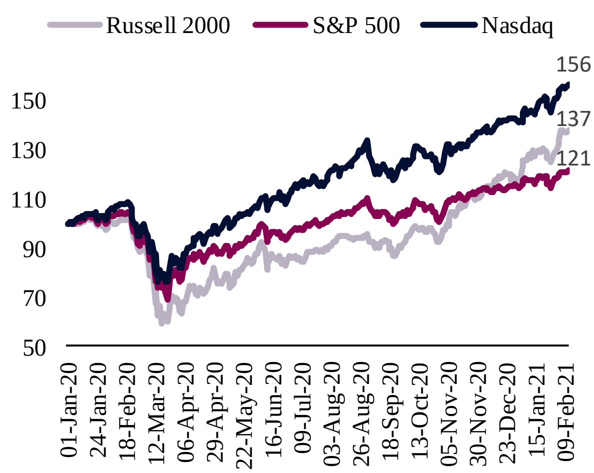
**US weekly leading index of economic activity**
(weekly, growth rates, %)




Sources: Economic Cycle Research Institute, QNB analysis

Investors' confidence in the continuation of the US recovery is also expressed in the recent advance of key US equity indices, that had a great bull run after the flash market crash in March 2020. Investors are forward-looking and, therefore, equity prices tend to also lead economic activity by a few months. According to Ed Yardeni at Yardeni Research, the magnitude of positive profit and revenue surprises among S&P 500 firms "have been much greater over the three quarters of the Great Virus Crisis (GVC) than they were coming out of the Great Financial Crisis (GFC)." A wave of positive earnings surprises often begets new positive earnings surprises, a common thread in economies that are early in their recovery cycle.

**Key US equity indices**
(daily, normalized, January 1st 2020 = 100)




Sources: Haver, QNB analysis

In our view, the US recovery is set to continue over the coming quarters. Three main factors underpin our assessment.

First, a rapid deployment of effective vaccines against Covid-19 will likely offer a durable solution to the epidemic in the US. Less social distancing and more normal consumer behaviour should unleash an unprecedented boom in services and leisure activities, due to pent-up demand from restrictions in 2020 and Q1 2021.

Second, the overwhelming majority of US households emerged financially unscathed from the GVC. Despite still high numbers of unemployment, amounting to about 10 million persons, the US saw the largest increase in personal income in more than 30 years in 2020, in part due to generous financial transfers from the government. Personal savings soared, creating a wall of consumer money that will be deployed once the economy opens up.

Third, US economic authorities have already affirmed their willingness and ability to continue supporting the domestic economy for longer. The US Federal Reserve will maintain near zero policy rates and the large-scale program of asset purchases for several quarters, guaranteeing ample liquidity. Moreover, the US government is keen to enact a new fiscal package of USD 1.9 trillion over the coming months, with more stimulus to follow in the form of infrastructure spending.

All in all, the US recovery appears to be at its first innings. In the absence of large unexpected shocks, the US may be leading the world to a period of higher growth rates. Should that be sustained over time, it may well be the beginning of another post-pandemic "roaring 20s," just like the economic expansion that followed World War I and the Spanish Flu pandemic.

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