

Prepared by the New Zealand Embassy in Washington.

Summary

- The US economy shrank by 3.5 percent in 2020, its worst performance since the end of WWII.
- Consumer spending is yet to rebound to its pre-pandemic levels and state and local governments cut back their spending in the fourth quarter as COVID-19 continues to impact on business openings and travel.
- New Zealand exports have performed well despite an overall drop in US exports and imports.
- Households are behind in debt payments and rent by US\$200 billion collectively which will be helped by short-term aid but will ultimately need years to dig out of financial holes.
- The job market remains depressed with nearly 10 million fewer jobs than a year ago and there are concerns that many of these job losses may become permanent.
- Federal Reserve Chair Jerome Powell warned in February that the US economy was “a long way from a full recovery”, highlighting the impact that the pandemic has had particularly on service-sector workers who are often women or people of colour.
- Powell is advocating for further government stimulus to help the job market recover and believes any inflation pressures are manageable.

Report

[Header 1]

- The coronavirus pandemic has had a major impact on US growth with the American economy shrinking by 3.5 percent in 2020 according to provisional figures from the Bureau of Economic Analysis (BEA) ([external link](#)). Last year was the lowest growth rate since 1946 when the US demobilised from its wartime footing and the economy shrank by 11.6 percent. It was also the first time the US economy has undergone annual contraction since 2009. Then GDP shrank by 2.5 percent due to the global financial crisis.
- Fourth quarter data shows that US economic recovery has flattened. After collapsing in the second quarter following an initial wave of business and school shutdowns to slow the spread of COVID-19, real US GDP rebounded in the third quarter as restrictions relaxed. Yet the annualised 33.4 percent improvement from July to September was not enough to erase the steep 32.9 percent drop from a higher base between April and June. In the last three months of the year real GDP rose just 4 percent on an annualised basis.
- Consumer spending— which accounts for more than two-thirds of US economic activity — is struggling. The nascent economic recovery was propelled by a rebound of sales of automobiles, renovations,

gardening supplies, and household goods including equipment for home offices. But in the final three months of the year the sectors that powered third-quarter growth faltered with spending down in all 15 categories tracked by the BEA. The growth of spending on motor vehicles and health care slowed and Americans continued to spend less on restaurants, hotels and other high social contact leisure activities.

- In the fourth quarter of 2020, US state and local government spending also fell dramatically. The 2.5 percent inflation-adjusted decrease from the same quarter the previous year is the sharpest decrease since mid-2012. This has spurred many economists and policymakers to push for continued aid to state and local governments. Economists point to the slow return of US public-sector jobs during the global financial crisis as a drag on the broader recovery.
 - Overall, US exports decreased US\$396 billion, or 15.7 percent, in 2020 compared to the previous year. US imports fell too but not by as much with a US\$295 billion, or 9.5 percent, drop. This led to the goods and services deficit to increase by US\$102 billion, or 17.7 percent. Again the services sector has suffered the most. The number of airline passengers is still a fraction of what it used to be (and public transportation usage is about half of what it was before the pandemic). Just 19 million international visitors came to the US last year, 60 million fewer than in 2019 according to the US Travel Association.
 - In contrast, the US agriculture sector weathered the challenges of 2020 remarkably well, despite the loss of domestic food service channels and supply chain adjustments forced by COVID-19. On the export front, the US-China Phase One agreement, while falling short of its agreed targets for agriculture purchases by China, still saw a record US\$27.3 billion of [US agriculture sales to China](#) in 2020. [Net Farm Income](#), which is a broad measure of profits across the sector, was up US\$38 billion, or 46 percent. This was in large part due to a record US\$46 billion in direct government payments through the Coronavirus Food Assistance Program (see earlier reports [here](#)) and other ad hoc and traditional support programmes.
 - Thankfully merchandise trade, particularly agriculture has shown remarkable resilience during the pandemic. Exports from New Zealand to the US during 2020 increased 18 percent to NZ\$6.65 billion. Despite the disruption to the food service sector, meat, horticulture, wine and chocolate products all performed strongly compared to the previous year though seafood exports were down and dairy was flat.
 - US housing market indicators remain robust, driven by low mortgage rates and increased demand for homes with more space to work and learn remotely. However, many Americans who are unable to afford property are behind on rent or mortgage payments due to fallout from the pandemic further underscoring the fragility of the economic recovery. To help, the Biden Administration has extended a moratorium on home foreclosures and offered delayed mortgage payments until July.
 - US unemployment has dropped from a record high of 14.7 percent in April, but remained stubbornly high at 6.3 percent in January. This is well above the 3.5 percent it was a year ago. Nearly 4 million Americans have been unemployed for 27 weeks or longer and the number of people filing for weekly unemployment claims remains over four times as high as they were before COVID-19. In a speech on 10 February, Federal Reserve Chair Jerome Powell said published unemployment rates “have dramatically understated the deterioration in the labour market” with the pandemic leading “to the largest 12-month decline in labour force participation since at least 1948”. Factoring in those who have stopped looking for work and the misclassification of many others, the unemployment rate was more likely to be 10 percent, he said.
 - Powell also highlighted the disparity in joblessness between richer and poorer Americans. For Americans who can work from home the unemployment rate is 3.9 percent, but the rate is 8.5 percent for people who have to report to a job site. And the businesses hardest hit by the pandemic disproportionately employ women, people of colour and workers without college educations. Powell said in the past year this has led to “the decline in employment for workers in the top quartile of the wage distribution has been only 4 percent, while the decline for the bottom quartile has been a staggering 17 percent”. This is being called a K-shaped recovery – where the top end of the economy improves, while lower earners fall
-

further behind.

- For this reason, Powell said the Federal Reserve remains firmly focused on aiding the struggling labour market and dismissed the potential danger of inflation rapidly accelerating from its current 1.4 percent annual rate. Powell has joined White House officials in stressing that Congress should not focus on fiscal restraint at the moment and welcomed possible further stimulus. “Given the number of people who have lost their jobs and the likelihood that some will struggle to find work in the post-pandemic economy, achieving and sustaining maximum employment will require more than supportive monetary policy,” he said. “It will require a society-wide commitment, with contributions from across government and the private sector.”
 - US President Joe Biden has proposed a US\$1.9 trillion economic relief package which includes US\$1,400 stimulus cheques for Americans. Senate Majority Leader Charles Schumer (Democrat-New York) said the GDP figures show “the need to act big and bold is urgent”. But many Republicans argue the proposal is too costly and unnecessary on top of the US\$4 trillion in relief Congress has previously passed providing stimulus cheques of US\$1,200 and of US\$600 already.
-

External links

- The following links may provide useful information to businesses:

More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

If you would like to request a topic for reporting please email exports@mfat.net

To contact the Export Helpdesk

Email exports@mfat.net

Call 0800 824 605

Visit Tradebarriers.govt.nz

Disclaimer

This information released in this report aligns with the provisions of the Official Information Act 1982. The opinions and analysis expressed in this report are the author's own and do not necessarily reflect the views or official policy position of the New Zealand Government. The Ministry of Foreign Affairs and Trade and the New Zealand Government take no responsibility for the accuracy of this report.