The US GDP Slide

Why in news?

The United States has recorded the sharpest GDP decline in its history.

How much did GDP slide?

- The GDP of the US, the world's largest economy, has contracted by 33% in the second quarter, or a near 10% quarter-over-quarter decline.
- This is in sharp contrast to the GDP data released by China, the world's second-largest economy.
- China's GDP growth swung back sharply into the black in the April-June quarter.

What explains the US GDP slide?

- Economists decoding the slide in the US GDP numbers point to a precipitous **fall in consumption**.
- [Consumption is the biggest component of American GDP that accounts for almost 70% of the economy.]
- Spending on goods and services has fallen at a seasonally adjusted annualised rate of 35% in the second quarter.
- **Investments** in buildings, equipment and intellectual property also fell at an annual rate of 49% while **exports** plunged 64%.
- The worrying news for the US is that the scale of this fall in the first quarter would be dwarfed by that in the second.
- Much of this pessimism can be attributed to the **sharp surge in COVID-19 cases**.

Why do the world's top two economies offer contrasting trends?

- **Similarities** - Both the US and China are consumption-driven - over two-thirds of US GDP and more than one-half that of China.
- In their relief packages, both countries focussed on boosting consumption by attempting to put money in the hands of consumers.
- **Divergent trends** - China's GDP growth showed a sharply divergent trend, swinging back sharply in the April-June quarter.
- This growth was driven by a bounce back in manufacturing output and a

public spending boost.
- China recorded a V-shaped recovery (a sharp fall followed by an equally sharp recovery), which was something unexpected.
- This ensured that China effectively sidestepped a technical recession.
- [Technical Recession - Two consecutive quarters of negative growth]
- The US is clearly headed for a recession if the third-quarter projections are anything to go by.

What is the key differentiator between these two economies?

- The big differentiator is with respect to the services sector and consumption trends.
- **Services sector** - Both economies rely on the service sector for a range of value-additions and output that contribute to their respective GDP.
- In the US, continuing mobility restrictions have significantly hampered the return of such jobs.
- Such restrictions in the US have been geographically more widespread and longer-term.
- This is so because of its initial delay in responding to the spread of the disease, and fickle state government policies.
- China's COVID-19 related support policies, including spending, loans and guarantees, amounted to just 2.5% of GDP.
- This is much higher than the 11% for the US.
- **Consumption trends** - China's 3.2% year-on-year GDP growth showed a clear recovery in consumption trends.
- This is something that is evidently missing in the US.

What are the takeaways for India?

- **Relaxations** - In India, like in the US, the case count is surging, even as the government is progressively easing up restrictions.
- The Union Home Ministry has announced further relaxations in the lockdown guidelines, including opening up gyms.
- After this announcement, India recorded the biggest jump in the daily case count at over 55,000.
- **Consumption** - The share of consumption to GDP, at 57% in India, is closer to that of China.
- But the trend of normalisation of consumption is akin to what is being experienced in the US.
- There are uncertainties preventing people from upping their spends beyond essentials, notwithstanding the progressive unlockdowns.
- **Recovery packages** - India's recovery could have another problem.
- Much of the Rs 20 lakh crore Covid-19 economic package has been liquidity

driven, with little burden on the Central exchequer.
- It has been focused on pushing banks to extend credit on the back of government guarantees to sectors like small businesses, NBFCs, etc.

How would recovery happen in India?

- Most economic activities are losing two months of output.
- There is a subsequent localised lockdowns being announced by states in the wake of the surge in caseload.
- Therefore, the recovery process looks like it would be an extended one.
- The recovery in economic activity also depends on the **quality of policy support**.
- A consumption boost in India's recovery is should not be ruled out.

Source: The Indian Express

