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U.S. Economy Sees Record Economic Plunge, Dismal Jobs Outlook as Country Struggles to Contain Pandemic

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WASHINGTON (AP) — The coronavirus pandemic sent the U.S. economy plunging by a record-shattering 32.9% annual rate last quarter and is still inflicting damage across the country, squeezing already struggling businesses and forcing a wave of layoffs that shows no sign of abating.

The economy's collapse in the April-June quarter, stunning in its speed and depth, came as a resurgence of the viral outbreak has pushed businesses to close for a second time in many areas. The government's estimate of the second-quarter fall in the gross domestic product has no comparison since records began in 1947. The previous worst quarterly contraction — at 10%, less than a third of what was reported Thursday — occurred in 1958 during the Eisenhower

administration.

Soon after the government issued the bleak economic data, President Donald Trump diverted attention by suggesting a “delay” in the Nov. 3 presidential election, based on his unsubstantiated allegations that widespread mail-in voting will result in fraud. The dates of presidential elections are enshrined in federal law and would require an act of Congress to change.

So steep was the economic fall last quarter that most analysts expect a sharp rebound for the current July-September period. But with coronavirus cases rising in the majority of states and the Republican Senate proposing to scale back aid to the unemployed, the pain is likely to continue and potentially worsen in the months ahead.

The plunge in GDP “underscores the unprecedented hit to the economy from the pandemic,” said Andrew Hunter, senior U.S. economist at Capital Economics. “We expect it will take years for that damage to be fully recovered.”

That’s because the virus has taken square aim at the engine of the American economy — consumer spending, which accounts for about 70% of activity. That spending collapsed at a 34.6% annual rate last quarter as people holed up in their homes, travel all but froze, and shutdown orders forced many restaurants, bars, entertainment venues and other retail establishments to close.

Tentative hopes for a swift recovery have been diminished by a resurgence of viral cases in the South and the West that has forced many businesses to close again or reduce occupancy. Between June 21 and July 19, for example, the proportion of Texas bars that were closed shot from 25% to 73%. Likewise, 75% of California beauty shops were shuttered July 19, up from 40% just a week earlier, according to the data firm Womply.

The second surge does appear to be leveling off, but cases are still rising in close to 30 states, with the outbreak’s center of gravity seemingly now shifting toward the Midwest.

Many states have imposed restrictions on visitors from the states that have reported high levels of cases, hurting hotels, airlines and other industries that depend on travel.

That has led to mammoth job losses. In a sign of how weakened the job market remains, more than 1.4 million laid-off Americans applied for unemployment benefits last week. It was the 19th straight week that more than 1 million people have applied for jobless aid. Before the coronavirus erupted in March in the U.S., the number of Americans seeking unemployment checks had never exceeded 700,000 in any one week, even during the Great Recession.

An additional 830,000 people applied for unemployment benefits under a new program that extends eligibility for the first time to self-employed and gig workers. All told, the government says roughly 30 million people are receiving some form of jobless aid, though that figure might be inflated by double-counting by some states.

The pain could soon intensify further: A supplemental \$600 in weekly federal unemployment benefits is expiring, and Congress is squabbling about extending the aid, which will probably be done at some reduced level of payment.

“The risk of temporary job losses becoming permanent is high from repeated closures of businesses,” said Rubeela Farooqi, chief U.S. economist at High Frequency Economics. “That could result in an even slower pace of recovery.”

Last quarter's economic drop followed a 5% fall in the January-March quarter, during which the economy officially entered a recession, ending an 11-year economic expansion, the longest on record in the United States.

The Trump campaign said in a statement that the GDP report reflected a period "when much of the economy was essentially closed down to save millions of American lives."

The economic harm from the virus is extending well beyond the United States. On Thursday, Germany reported that its GDP tumbled 10.1% last quarter. It was the biggest such drop since records began in 1970. And Mexico's GDP sank 17.3% last quarter, also a record. Unlike the U.S. figures, those numbers are not annualized rates.

With little hope of a swift recovery in the U.S., the picture looks dim for many of the jobless. Since she was laid off by a tech industry nonprofit in mid-May, Miranda Meyerson has been trying to find another job and to sign up for unemployment benefits.

"It's just incredibly frustrating and demoralizing," she said. Potential employers seem to be delaying hiring decisions.

"Nobody gets back to you," said Meyerson, 38. "You feel like there's only so long you can submit (applications) into a void."

Meyerson and her partner had moved from New York to Oakland, California, in March. The move complicated her efforts, so far futile, to collect benefits from a swamped California unemployment benefits system.

Many economists note that the economy can't fully recover until the pandemic is defeated — a point stressed Wednesday at a news conference by Federal Reserve Chair Jerome Powell. He warned that the viral epidemic has been endangering a modest economic recovery and that, as a result, the Fed plans to keep interest rates pinned near zero well into the future.

"A poorly managed health situation and depressed incomes means the economy risks a double-dip recession without urgent fiscal aid," said Gregory Daco, chief U.S. economist at Oxford Economics.

Daco said the expiration of the \$600 in federal unemployment aid means that many households could suffer a loss of income in the range of 50% to 75%. That could further weaken spending, thereby fueling a downward economic spiral.

"The economy," Daco said, "is going to be running on very little fuel at a point when the recovery has really stalled."

Written by AP's MARTIN CRUTSINGER and PAUL WISEMAN