

US Jobless Claims & GDP Spook Trump

- USD sinks as Trump tweets about delaying the election
- Initial jobless claims rise for a second week
- Continuing jobless claims rise for the first time since May
- US Q2 GDP sinks in line with expectations
- Sell US on political dysfunction, stalled stimulus & souring jobs...
- ...or buy on the hope that rising claims focus the minds?

US Q2 GDP, q/q SAAR %:

Actual: -32.9

Scotia: -36

Consensus: -34.5

Prior: -5

US weekly initial (July 24th)/continuing (July 18th) claims, 000s:

Actual: 1434 / 17018

Scotia: 1400 / na

Consensus: 1445 / 16200

Prior: 1422 / 16151 (revised from 1416 / 16197)

What a coincidence. Shortly after seeing the GDP and claims numbers and thinking about a souring economy into the election, President Trump tweeted that the election should be delayed because of the risks that people would be taking if they had to vote during the pandemic. Going back to school and reopening everything is ok, but voting would be wayyyy too dicey... I guess they were a tougher breed that still voted in the 1918 midterms!

What he saw was indeed disturbing, but not particularly impactful to markets—until his tweet hit and brought equity futures a bit lower as it obviously foments concern he won't give up the title easily even if defeated. That risks political dysfunction of a shape and magnitude never before seen in the US. Hence the drop in the USD immediately after his tweet in that political dysfunction, stalled fiscal stimulus and a souring labour market lend serious consideration to a much greater degree of caution toward US assets. Each of these risks feed off of one another in that the tweet doesn't help the tone of the fiscal dialogue with stimulus extensions of vital important to the job market.

Weekly initial jobless claims increased by 12k from an upwardly revised prior week estimate for a combined increased of 18k (chart 1).

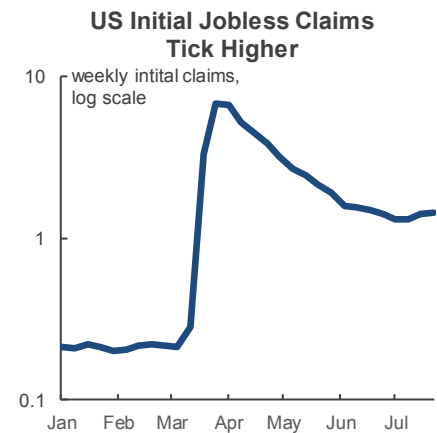
Continuing claims registered the first jump in the extended duration of jobless benefits since the first week of May (chart 2). More initial claims and staying on earlier claims for longer is a double negative.

While two weeks of higher initial claims, an up-tick in the lagging duration of unemployment and expired \$600/week benefits are less than ideal, the silver lining could be the possibility that a souring job market focuses the minds in Washington!

CONTACTS

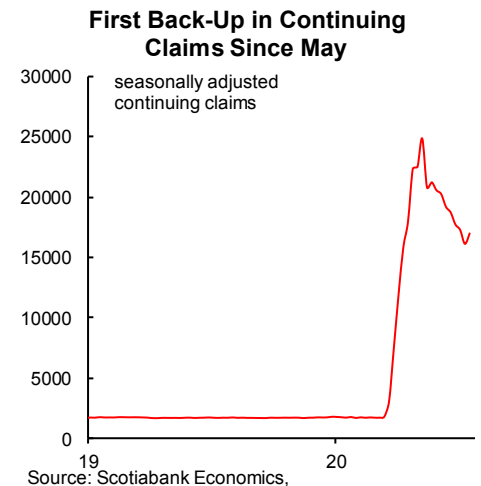
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Chart 1



Sources: Scotiabank Economics, US Dept of Labor.

Chart 2



Source: Scotiabank Economics,

The GDP hit was in line with expectations and backward looking to forward looking markets. The dual rise in initial and continuing claims adds to concern that the US job market is slowing even if we don't see that in next Friday's nonfarm payrolls versus risk into August payrolls.

The GDP drop is shown in chart 3. Chart 4 shows the weighted contributions to growth by GDP component. The dominant role played by services consumption a) in an economy dominated by the service sector, and b) given the concentrated social distancing effect on services after the lockdown should surprise no one.

- Consumption dragged 25 percentage points off GDP;
- Investment knocked another 9.4 points off;
- Inventories subtracted 4 points;
- Exports dragged 9.4 points off GDP;
- Imports added 10 points (less import leakage effect with lower imports)
- Government spending added just 0.8 pts as the Fed's added 1.2 but challenges across states/locals knocked 0.4 pts off GDP. This too could help focus the minds on the troubles facing state and local governments and how they are working against recovery.

Chart 3

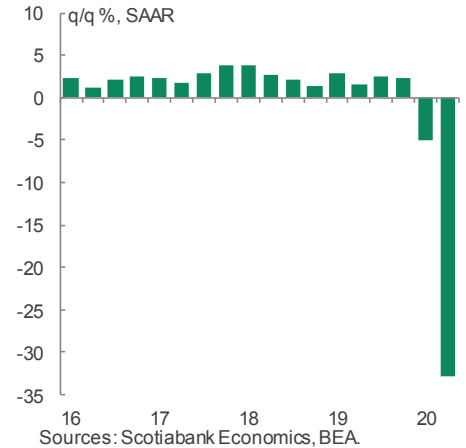
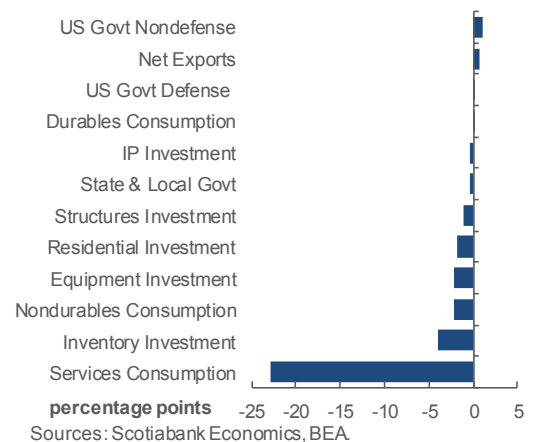
Quarterly US Real GDP Growth

Chart 4

Contributions to Q2 US GDP Growth

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