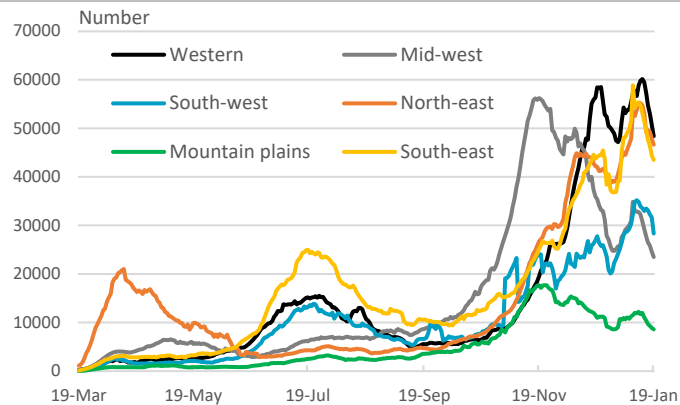


## ASFA Economic Snapshot: week ending 22 January

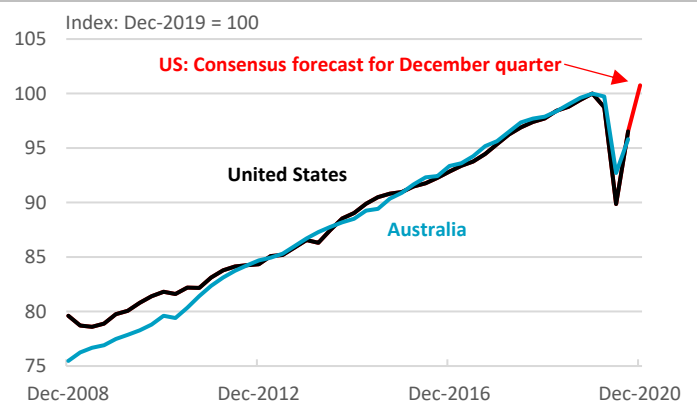
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

### US experiencing a third and larger wave of COVID cases



This chart shows the number of new cases each day by region. The first wave was concentrated in the North-east (particularly New York), while the second wave hit hardest in the South-east (particularly Florida). Initially, the third wave of new cases was concentrated in the Mid-west (particularly Michigan), but has since broadened across much of the country – including areas hit by the first two waves.

### US GDP rebounds, but the recovery is fragile



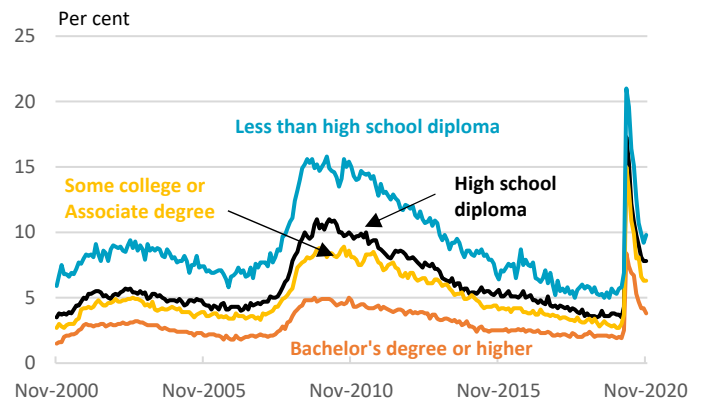
This chart shows GDP for the US and Australia. While the initial shock was larger in the US, so was the subsequent re-bounce. That said, the new Administration faces challenges in sustaining the recovery. The Administration will have limited ability to reduce any direct economic fall-out from the third wave (restrictions to control the virus are at the state and county level), so will focus on fiscal measures (Panel 5).

### Spare capacity in US labour market remains elevated ...



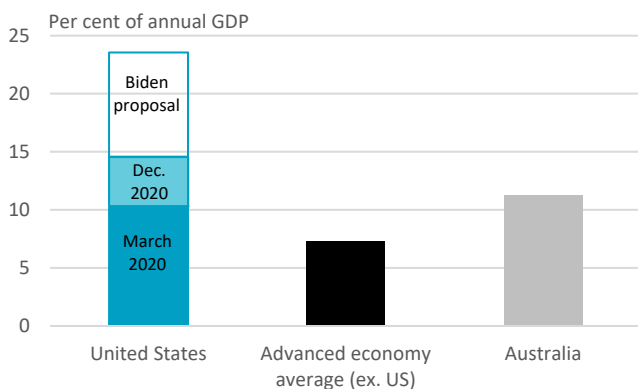
The participation rate is the proportion of people aged 16 and over who are in the labour force (working or looking for work). Rates fell in March 2020 as many people who lost their job decided not to look for work. Since then, rates have recovered somewhat as people have re-entered the labour force. In terms of spare capacity, the gap between current and pre-crisis rates equates to about 4 million people.

### ... particularly for US workers on low incomes



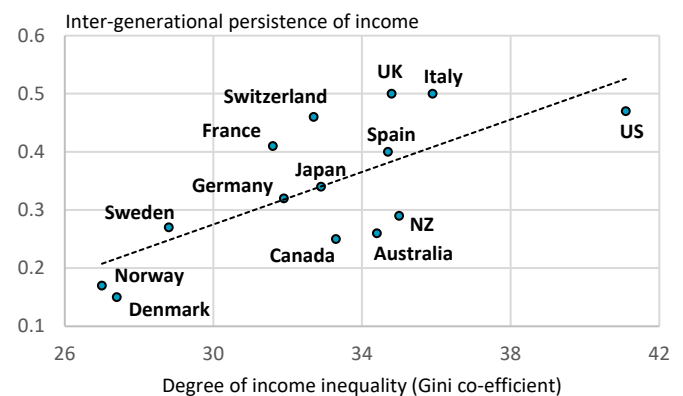
The unemployment rate indicates spare capacity *within* the labour force. This chart shows unemployment rates based on educational attainment. As is the case for past shocks (e.g. the GFC), workers on lower incomes have been hit hardest by the crisis. With respect to total unemployment and spare capacity, still-elevated unemployment rates amount to around 5 million people (compared to before the crisis).

### Near-term US policy will focus on fiscal support ...



For the US, direct fiscal measures adopted in 2020 total almost 15% of annual GDP. The new Administration has proposed a further \$1.9 trillion package (although it may not pass Congress in full). The US's relatively large response is due, in part, to its weaker social safety net – which is reflected in relatively high income inequality (Panel 6).

### ... but addressing inequality requires structural change



This is the 'Great Gatsby' curve for selected economies. The horizontal axis shows current income inequality, while the vertical axis shows the degree to which family members across generations shift to different income brackets (a high number indicates low mobility). Not only is inequality relatively high in the US, but poor families tend to stay poor.