

## ECONOMIC NEWS

# United States: Real GDP Is Off to a Good Start in 2021

### HIGHLIGHTS

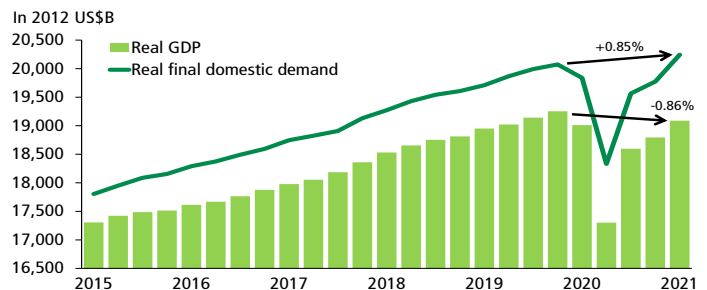
- ▶ U.S. real GDP rose 6.4% annualized (1.6% non-annualized) between the fourth quarter of 2020 and the first quarter of 2021 according to the advance estimate of national accounts. This is after the 4.3% quarterly annualized variation recorded in the fourth quarter of 2020. Real GDP remains 0.9% below its level at the end of 2019.
- ▶ Real consumption rose an annualized 10.7% in the first quarter. Consumption of durable goods jumped 41.4%, while non-durable goods were up 14.4%. Annualized growth in services was 4.6%.
- ▶ Non-residential fixed investment by businesses rose 9.9%. Non-residential construction was down 4.8%, a sixth straight decline. Investment in equipment advanced 16.7%. Investment linked to intellectual property products grew 10.1%. The change in inventories went from +US\$62.1B to -US\$85.5B, leading to a significant negative contribution of 2.64 percentage points to real GDP growth. Residential investment grew 10.8%.
- ▶ International trade took a 0.87 percentage-point bite out of real GDP growth. Real imports were up 5.7%, whereas real exports were down 1.1%.
- ▶ Government expenditures rose 6.3%, the biggest increase since the winter of 2002.

### COMMENTS

There was never any doubt that the federal government's substantial aid packages in the form of US\$900B passed at the end of 2020 and US\$1,900B passed in mid-March would stimulate the U.S. economy. This caused real household disposable income to soar 61.3% annualized. In addition, the drop in the number of COVID-19 cases, supported by the successful vaccination campaign, helped ease public health measures. These factors were reflected in the strong 9.8% growth in final domestic demand, which has now moved well

### GRAPH

**U.S. real GDP is approaching its pre-pandemic level... but final domestic demand has already surpassed it**



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

beyond its pre-pandemic level. This is not yet the case for real GDP. The strength of the demand had to be met by imports and lower inventories.

The gains forecast for the second quarter, supported mostly by the reopening of the sectors that were still restricted by the pandemic, will help real GDP push past its pre-crisis level. Moreover, the production of services is expected to see higher growth. In the first quarter, the production of services remained 4.7% below its level at the end of 2019, while the production of goods had already surpassed this threshold by 6.6%.

### IMPLICATIONS

U.S. real GDP is expected to grow even more in the spring. With high hiring and increased pressure on prices, the Federal Reserve should signal sometime before the summer that it may begin to reduce its quantitative easing in the fall.

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