

US GDP

US economic rebound gains momentum in first quarter

Annualised growth hits 6.4% as stimulus, vaccinations and easing of lockdowns boost recovery



Many states have fully or partly lifted pandemic-related restrictions on businesses such as restaurants

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Mamta Badkar and Colby Smith in New York

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US economic growth received a boost in the first three months of 2021 from massive fiscal stimulus that fuelled consumer spending, as well as looser lockdown restrictions, bringing output close to pre-pandemic levels.

Gross domestic product advanced 6.4 per cent on an annualised basis in the first quarter, the commerce department said on Thursday. That topped economists' expectations for 6.1 per cent growth, according to a Refinitiv survey, and marked the quickest first-quarter growth since 1984.

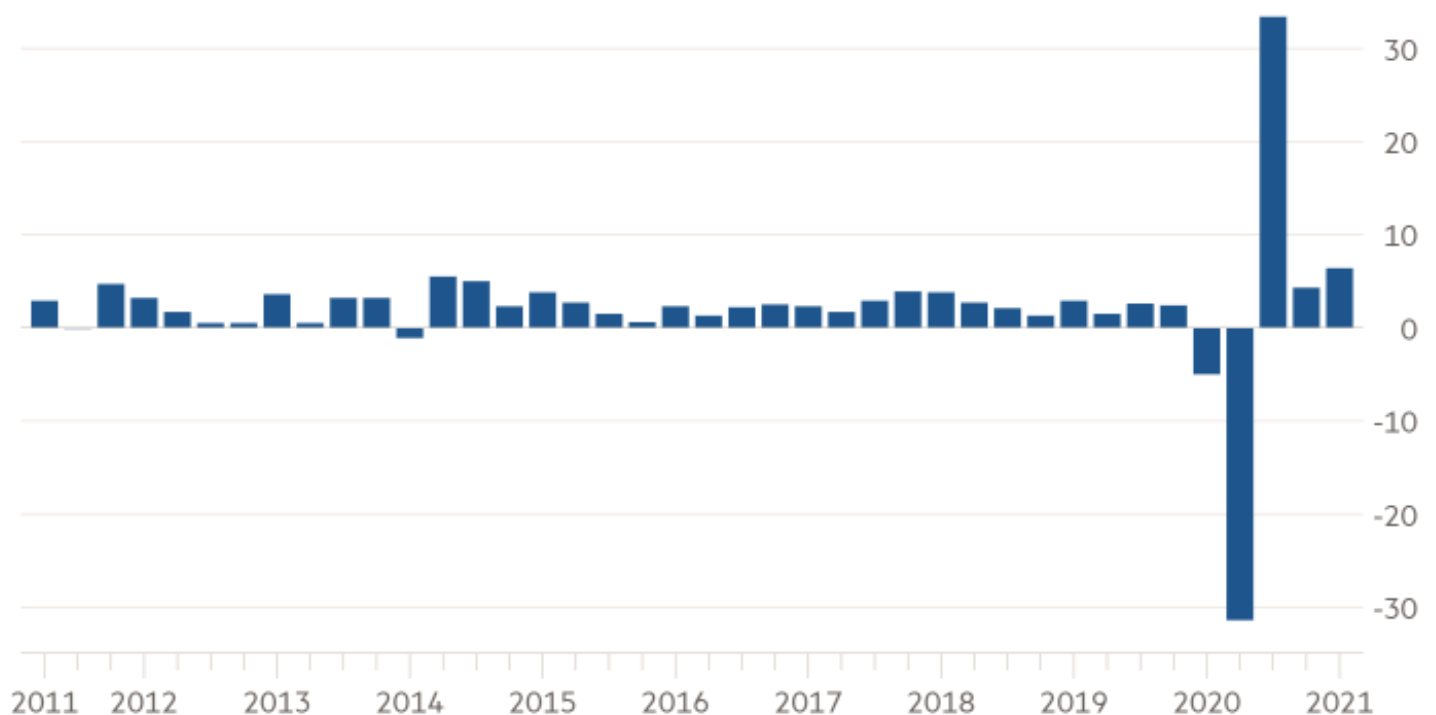
Economic output advanced 1.6 per cent compared with the previous quarter, based on the measure used by other major economies. Real GDP was just 1 per cent shy of its pre-pandemic level.

Growth accelerated as more Americans were vaccinated against coronavirus and states and cities began to relax pandemic restrictions. The US has administered 234.6m doses so far, and 98m Americans are fully vaccinated — representing 29.5 per cent of the total population.

Consumers spent lavishly on goods as the economy reopened, drawing on stimulus cheques as well as their savings pile. Personal consumption expenditures grew at a 10.7 per cent annualised pace. However, Ian Lyngen, head of US rates strategy at BMO Capital Markets, noted that spending on services was little changed.

US growth regains momentum at start of 2021

GDP change (% annualised)



Sources: FactSet, Mamta Badkar/FT

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“This leaves open the possibility for a strong second quarter as reopening will stoke service sector consumption, although it also reiterates the concern that simply unlocking the doors and turning on the lights won’t be sufficient to get consumers re-engaged in in-person commerce,” he said.

Pressure eased briefly on longer-dated Treasuries after the GDP report, with the benchmark 10-year bond falling to 1.65 per cent. It later edged back up to 1.68 per cent. US stocks rose, with the S&P 500 gaining roughly 0.6 per cent in mid-morning trading.

The data come after US president Joe Biden said America was “ready for take-off” as he touted the economic recovery during a speech to Congress on Wednesday. Having already pushed through his stimulus plan in March, Biden has now shifted his attention to a \$2.3tn infrastructure spending bill. The Federal Reserve on Wednesday acknowledged progress in the economic recovery, but maintained that its future path would “depend significantly on the course of the virus”. Jay Powell, the Fed chair, said that while the “recovery has progressed more quickly than generally expected, it remains uneven and far from complete”.

Indeed, despite the improvement, the labour market is a long way from recovering all the jobs lost since the start of the pandemic. Powell on Wednesday noted that one month of stellar job growth was “not enough”.

“The Fed will clearly acknowledge this as an important factor with which to judge the overall recovery,” said Padhraic Garvey, global head of debt and rates strategy at ING. “But crucially, this is a different type of Fed, in the sense that their focus is on the most vulnerable Covid-impacted households, rather than the median one.”

A separate report from the labour department on Thursday showed that 553,000 Americans filed for new unemployment benefits last week, the lowest level since the start of the pandemic but still historically elevated. Nearly 16.6m Americans continue to seek jobless benefits more than a year since the pandemic began. The Fed, which signalled that it was in no rush to remove its ultra-easy monetary policy, has projected 6.5 per cent GDP growth and an **unemployment** rate of 4.5 per cent this year. Growth is expected to moderate to 3.3 per cent in 2022.

Despite the strong GDP report Patrick Leary, chief market strategist and senior trader at Incapital, raised concerns about the economy’s growth trajectory once the effects of the most recent Covid stimulus relief package ebbs.

“I question how much the economy can grow without the help of stimulus, but perhaps that doesn’t matter near-term as the administration is planning another round of spending to stimulate the economy,” he said.

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