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Economy grew by 1.6 percent in first quarter, showing signs of boom to come

The economy is on the verge of regaining all of its pandemic losses, but signs of trouble linger

By Andrew Van Dam and Rachel Siegel
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The U.S. economic recovery picked up speed, with the economy growing 1.6 percent in the first three months of the year because of rising coronavirus vaccinations and massive federal stimulus spending. The economy is on the verge of regaining all of its pandemic losses in coming months.

The GDP report, released by the Bureau of Economic Analysis on Thursday, showed that consumers are spending more on things like cars and homes. Plus, a record boost in household after-tax income suggests there's more consumer spending power waiting in the wings.

The rosy economic news came the same day as news of the third straight week of improvement in jobless claims, according to the Labor Department. Meanwhile, a range of companies across different sectors — including Microsoft, Comcast, McDonald's, Caterpillar and Mastercard — all reported strong revenue in recent days. Amazon on Thursday reported a 44 percent jump in sales in the first three months of the year.

"Virtually all key economic indicators are flashing a green light suggesting there's a lot of economic momentum for growth," said **Bernard Baumohl, chief economist at the Economic Outlook Group**. He likened the country's prospects to a bursting firework: spectacular while it lasts, with an afterglow that will linger for some time.

The recovery has been good for small businesses like Chesapeake Light Craft, which has seen surging sales of its flat-pack building kits for everything from kayaks to 31-foot outrigger sailboats. The company is hiring new staffers for its 10,000-square-foot warehouse in Annapolis, Md., to cope with a 20 percent increase in orders.

“Everyone I’ve talked to, they’re just ready to get out,” Chesapeake Light Craft chief executive John Staub said. “They’re ready for life to resume to normal.”
However, even when the economy officially reverses its pandemic losses, signs of trouble will linger. While the unemployment rate has fallen, about 8.4 million jobs lost during the pandemic have yet to return. The GDP report noted inflation is picking up: prices grew at a 3.5 percent annualized rate in the first quarter and are up 1.7 percent from a year earlier.

Economists, including those at the Fed, expect prices to continue to pick up in the near term, reflecting ongoing supply-chain problems that are expected to ease as the global economy reopens.

The optimistic picture could make it more politically difficult for the Biden administration, which is making the case that the economy needs an ambitious $2 trillion infrastructure plan and an equally sweeping $1.8 trillion plan that directs money toward child care, education and paid family leave. Republicans in Congress oppose such large proposals and could point to the strengthening recovery and argue that high levels of need just aren’t there, said Joe Brusuelas, chief economist at RSM.

“On infrastructure, maybe that’s an easier case to make, because of the productivity lift that would follow,” Brusuelas said. “I could make a very strong case for the social programs. But it becomes much more difficult when you’re back to pre-pandemic levels of economic activity, and one can reasonably expect the economy will be back to full employment.”

Harvard economist Jason Furman, chair of the White House Council of Economic Advisers under President Barack Obama, said the data make a strong case that the novel coronavirus remains the biggest factor holding the economy back. People are spending in areas where it’s safe to do so — buying goods such as boat kits or fire pits — but still avoiding spending on face-to-face services such as restaurants and bars.

“It was an extraordinary quarter for people going out and buying stuff, particularly cars — I myself bought a car in Q1 — but the services part of the economy was still well below where it was before the pandemic,” Furman said.

And customers have plenty to spend. Thursday's report showed Americans received a record amount of after-tax income in the first three months of the year as the bulk of the $600 checks for the December stimulus and $1,400 American Rescue Plan checks were distributed. The record would not have been reached without more than $1.6 trillion in federal stimulus spending reaching household balance sheets since the crisis began, with $0.6 trillion of that coming in the past quarter alone, according to the BEA.

That includes stimulus measures that President Donald Trump signed in the final days of 2020, and the coronavirus relief package President Biden signed in March. Still, economists say the first-quarter numbers won't reflect the full thrust of Biden's $1.9 trillion bill, which many expect will turbocharge the economy and fuel year-long growth.

In Annapolis, Staub just got done surveying his employees, gauging their willingness to reopen their small retail space to in-person traffic. Based on their input, he plans to open for retail and restart in-person boatbuilding classes in the very near future.

Customers flocked to the company when stay-at-home orders proliferated last spring and everybody was looking for unique, socially distanced activities — activities such as boatbuilding. Demand hasn't subsided, and Staub said 2021 is on track to at least match the record sales he saw in 2020. The company is shipping about 2,000 kits a year.

"I think there's going to be a ripple effect through the economy for a long time," Staub said. "The economy is just not the same as it was 12 to 16 months ago."

As people find they have enough furniture and recreational vehicles, economists are watching for the service sector to spring back. If people start booking travel and dining out once again, jobs that vanished a year ago at hotels and restaurants may finally return.

Constance Hunter, chief economist at KPMG, said she'll be looking for complications of a strong rebound: supply constraints. Also telling will be the extent to which demand for services picks back up after peoples' quarantine spending fixated on goods.

Hunter pointed to auto sales — and the accompanying semiconductor chip shortage — as one example. In a tweet Thursday morning, Hunter said she didn't expect auto sales would keep growing at their roaring pace. But if people start to shift away from buying cars, and instead spend money on services, that could ease pressure on demand for chips, giving supply chains time to recalibrate.

The aluminum trailers and specialty imported metal boat parts needed at Chesapeake Light Craft are often sold out months ahead of time. Nationally, demand for new homes has triggered a lumber shortage, sending prices soaring.

As Daryl Fairweather, chief economist at the national real estate brokerage Redfin, ticked off all the ways in which this housing market had set records — price growth, time on market, homes sold over list price, homes selling in less than a week — she said all that housing activity had an outsized effect on economic growth in the first three months of the year.

New construction, agent fees and remodels propelled residential real estate to its biggest share of the economy since the housing bubble of the mid-2000s, Fairweather said. And although those forces should remain strong through the summer, she expects that housing's role in the economy will recede as price growth slows and other sectors catch up.

As recently as early January, economists surveyed by Wolters Kluwer's Blue Chip Economic Indicators thought the first quarter would see just 0.6 percent growth (2.3 percent annualized) as the pandemic peaked, but they raised their forecasts as stimulus money flooded the country and 94 million Americans were at least partly vaccinated in a three-month period, according to data compiled by The Post.

The first quarter's growth, 1.6 percent, would be 6.4 percent at an annual rate, but annual rates can be misleading amid an unprecedented crisis, because they imply that a quarter's trend will continue for an entire year. The Washington Post is focusing on quarterly rates until the economy recovers.

In the first half of 2020, as the United States shut down over fears of the fast-spreading new virus, the U.S. economy shrank more than 10 percent. After nine months of growth, it is more than nine-tenths of the way back. It remains further behind after accounting for population growth and the economy's estimated potential.

For much of corporate America, the boom is already underway. Amid the rosy reports from firms including McDonald's and Northrop Grumman are ample signs companies believe the boom will continue. Caterpillar's profits rose as the nation's mines and factories gear up for rising demand. Microsoft reported the nation's covid-era digital transformation continued apace.

Amazon, whose founder Jeff Bezos owns The Washington Post, reported eye-popping profits on Thursday of $8.1 billion for the three months ending in March, compared with $2.5 billion during the same period last year.

“Obviously, the economy is starting to open up and there is a lot of need for new employees for a lot of different industries, and a lot of industries that some of our employees came from are now re-opening,” Amazon Chief Financial Officer Brian Olsavsky said in an earnings call.

If the current pace of economic growth is to be sustained, it will require increased productivity driven by new technologies like those that proliferated during the pandemic, said **Baumohl, with the Economic Outlook Group**. This week, Microsoft reported a 19 percent jump in revenue. On a call with analysts, CEO Satya Nadella noted the work-from-home world in which we have been living played to the Seattle tech titan’s strengths.

“Over a year into the pandemic, digital adoption curves aren’t slowing down. In fact, they’re accelerating and it’s just the beginning,” Nadella said.

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