The Washington Post

Economy

U.S. economy grew annual 6.5 percent between April and June, marking full recovery from the pandemic

For the first time, economic output eclipsed its pre-pandemic high, after adjusting for inflation

By Rachel Siegel and Andrew Van Dam

July 29, 2021

The U.S. economy was officially back and fully recovered from the coronavirus pandemic as of June, although a recent surge in cases could bring new uncertainty.

The economy grew at an annual rate of 6.5 percent in the quarter ending in June, below forecasts of at least 8 percent, as coronavirus vaccinations and unleashed consumer spending added momentum to the recovery. The lower-than-expected figures reflect an economy struggling with supply-chain backlogs that have hamstrung business productivity by lowering inventories of basic goods and materials and pushing prices higher, economists say.

For the first time since the pandemic took hold, economic output eclipsed its pre-pandemic high, after adjusting for inflation. However, that doesn’t mean the economy is back to the level it would have been at had the pandemic not happened, because about a year of continued economic growth is missing.

The drag caused by low inventory in the second quarter could leave "quite the tail wind to growth going forward,” especially as supply chains have time to clear, said Joe Brusuelas, chief economist at RSM.

For example, Brusuelas said he ordered a German car in mid-March, knowing there would a wait, given a shortage of microchips and other parts in the auto supply chain. His car didn't ship until this week in the third quarter.

"That in a nutshell is a good description of the first half of 2021," he said. "It's lumber. It's dry wall. It's chips. As the supply chain constraints ease, those bottlenecks clear, and you'll get a surge in industrial production and residential investment."

The gross domestic product (GDP) report, released Thursday by the Commerce Department's Bureau of Economic Analysis, offered a backward-looking snapshot of the months when hiring picked up speed and people felt comfortable booking vacations, eating at restaurants, and buying tickets to concerts and movies. Some Americans received $1,400 economic stimulus checks in the late spring or received extended unemployment benefits, providing a financial cushion that helped households step back into their old routines — and spend.

Economists still hope for strong continued growth in 2021. But that optimism has been complicated by surging coronavirus cases and the spread of the delta variant of the virus, particularly among unvaccinated people. On Tuesday, the Centers for Disease Control and Prevention urged indoor mask-wearing for people in coronavirus hot spots and other circumstances.

The economic repercussions are unclear. The Biden administration is pledging a bold economic agenda and urging Americans to get vaccinated. Policymakers at the Federal Reserve and elsewhere have made clear that controlling the pandemic is key to stabilizing the recovery.

On Wednesday, Fed Chair Jerome H. Powell said the delta variant could have fewer implications for the economy, if it follows the pattern of past waves of coronavirus surges. Powell said it was "plausible" that the delta variant, which is rapidly spreading among unvaccinated people, could discourage people from dining out or traveling, or delay school reopenings. But vaccinations, and society's ability to adjust to life in a pandemic, may offer a cushion from harsh economic strain, he said.

Now that GDP has regained the ground lost in that recession, the economy is shifting from recovery mode to expansion mode, although it could take years to regain its full potential, economists say, and reach the lofty levels had the coronavirus not interrupted the longest U.S. economic expansion on record.

“I think there’s a chance the delta variant will take us from very, very fast growth to very fast growth,” said Jason Furman, a senior economist in the Obama administration. “I think there’s almost no chance it could stop the economy’s progress, and I’m not even sure it will slow the economy’s progress.”
Still, policymakers and economists must see through the fog of this recovery, despite rocky indicators that are changing in real time.

In contrast with GDP, the labor market remains stubbornly far from a full recovery.

The Labor Department released jobless claim numbers on Thursday morning that suggest a stagnant hiring market newly unsettled by increasing cases of the delta variant in some parts of the country. An estimated 400,000 Americans filed initial unemployment claims last week. That is down from the previous week, but an increase from earlier in the month when just 368,000 claims were filed.

More broadly, some 6.8 million jobs are still missing after the pandemic crisis. Even at a rapid pace of job growth — in June the economy gained 850,000 jobs — a jobs recovery would not arrive until early next year, or longer, after accounting for population growth.

Extended unemployment benefits are set to expire Sept. 6. Many state governors, almost all of them Republican, ended the extra benefits in June in an attempt to encourage workers to return to the labor force. Early data indicates those moves have not sped up the pace of hiring, though they may allow workers to hire more adult workers and fewer teens.

While backlogged supply chains push prices up, Republicans and some prominent economists worry that inflation will be more permanent and widespread than officials from the Biden administration or Federal Reserve currently believe. They say the sheer size of the American Rescue Plan, plus the Fed’s ongoing monetary support, risk overheating the economy and supercharging price growth.

“By the time the Fed knows that it’s gotten it wrong, if it does get it wrong, we could have a big problem on our hands. As past experience shows us, it’s very difficult to get the inflation genie back in the bottle once she is out," Sen. Patrick J. Toomey (R-Pa.) said at a Senate Banking Committee hearing earlier this month.

Indeed, as the economy heated up, rising prices moderated economic growth, economists noted. Yet consumers still opened their wallet. Without the inflation adjustment, GDP could have hit 13 percent in the second quarter. In other words, about half of the increase in economic output came as a result of paying higher prices.

"What's truly interesting is that consumers have not been deterred by higher prices," said **Bernard Baumohl, chief economist at the Economic Outlook Group**. "They're flush with funds and apparently did not mind paying more."

Economists were looking to Thursday's GDP report to understand where people and businesses spent their money as shutdowns ended and consumer confidence rebounded. GDP, a measure of economic output, is the total value of all goods and services, from manifolds to manicures, produced in a country in a given quarter, with adjustments for factors such as trade and inflation.

Economists have been closely tracking whether consumers are shifting their spending from services to goods. When people stayed home last year, they bought "stuff," such as patio furniture, home office decor and workout equipment.
Thursday's GDP report showed a 12 percent climb in consumer spending on services, up from 3.9 percent in the first quarter. That's an encouraging sign, because more spending on things such as gym memberships and travel also helps bring jobs back in industries hit hard by the pandemic. Restaurant dining has rebounded, at times surpassing pre-pandemic levels. In June, employment jumped in the leisure and hospitality sectors, along with hotels, arts and entertainment.

However, if coronavirus cases continue to climb, workers get sick or new mask mandates are implemented, it's unclear whether people will start to withdraw again.

Personal income fell significantly in the second quarter compared to the first three months of the year, largely because of a drop-off in federal aid tied to coronavirus relief programs. The Bureau of Economic Analysis pointed to a decrease in stimulus checks that millions of American households received earlier in the year, through stimulus packages passed in December and March.

Meanwhile, global supply chains are still struggling to keep up with consumer demand, contributing to rising inflation. The GDP report showed drops in residential investment and investment in structures compared to the first quarter, as supply constraints weighed on construction.

Still, Furman noted that residential investment is booming compared to levels before the pandemic. Scarce construction materials and the need for more workers have collided with soaring demand for homes, fueling an already hot housing market.

“It sort of depends if you’re writing about how the world changed in the last three months, or are you stepping back and taking stock,” Furman said. “Taking stock, we’re building a ton of housing, just not ‘a ton, a ton’ of housing. ... Supply chains unclogging could help."

To understand one key reason the economy grew so much in the second quarter, consider the delayed quinceañeras, sweet sixteen parties, and bar and bat mitzvahs being held this summer for teenagers who hit spiritual and religious milestones last year with little fanfare amid a global pandemic.

In the northern Seattle suburbs, photographers Jennifer and Scott Matsuda started out shooting weddings but have built a thriving business photographing corporate events and bar and bat mitzvahs. That evaporated in March 2020, as their clients canceled every booking through May 2021.

But as all those delayed parties are rescheduled, their business, Red Fish Blue Fish Photography, is booming. Seattle-area corporate heavyweights Costco and Boeing are holding events again, and parents are rushing to make up for events their children missed. The Matsudas have met their booking goal for 2021 in record time. (Separate consumer-spending data from the Commerce Department shows that photography experienced the fastest growth of almost any industry in the first months of the quarter.)

“I don’t think we’re suddenly more popular; I think it is pent-up demand,” Scott Matsuda said. By this time next year, the Matsudas expect their business will return to its normal rhythms.

Since 1906, the Redwood Theater has been an entertainment hub for the small Oregon coastal town of Brookings, near the California border. The pandemic almost wiped it off the map. Owner Cindi Beaman credits a Shuttered Venue Operators Grant from the federal government, and her supportive, flexible employees, for keeping the two-screen establishment afloat.

Beaman estimates that the theater is doing a fifth of the business it did in 2019, as audiences avoid the coronavirus and embrace the convenience of streaming new releases at home. Separate data from the BEA indicates that theaters were reopening rapidly in the first months of the quarter, but they're still attracting far fewer consumers than they did in 2019.

When asked about the future, Beaman sounds equal parts weary and wary. She fears an interruption in film distribution will make it hard to find the sort of hit films that would bring folks back to the movies, and she fears that the local retirees who form a key pillar of her audience have been scared away. She said she believes the pandemic is still keeping away employees, too.

But Beaman still musters a sliver of optimism. She's getting creative in search of new revenue, adding a liquor license and renting out theaters for private parties. She said she thinks that if couples want to go on dates, they still want to go to the movies, and that the industry will find a way to meet them where they are.

###