

Economics

U.S. Recovery Gains Steam as Spending Fuels 6.4% GDP Growth

By [Reade Pickert](#)

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- ▶ Value of total output closes in on pre-pandemic peak
- ▶ Personal spending topped estimate with annualized 10.7% gain



U.S. Jobless Claims Fall, GDP Shows Economic Resurgence

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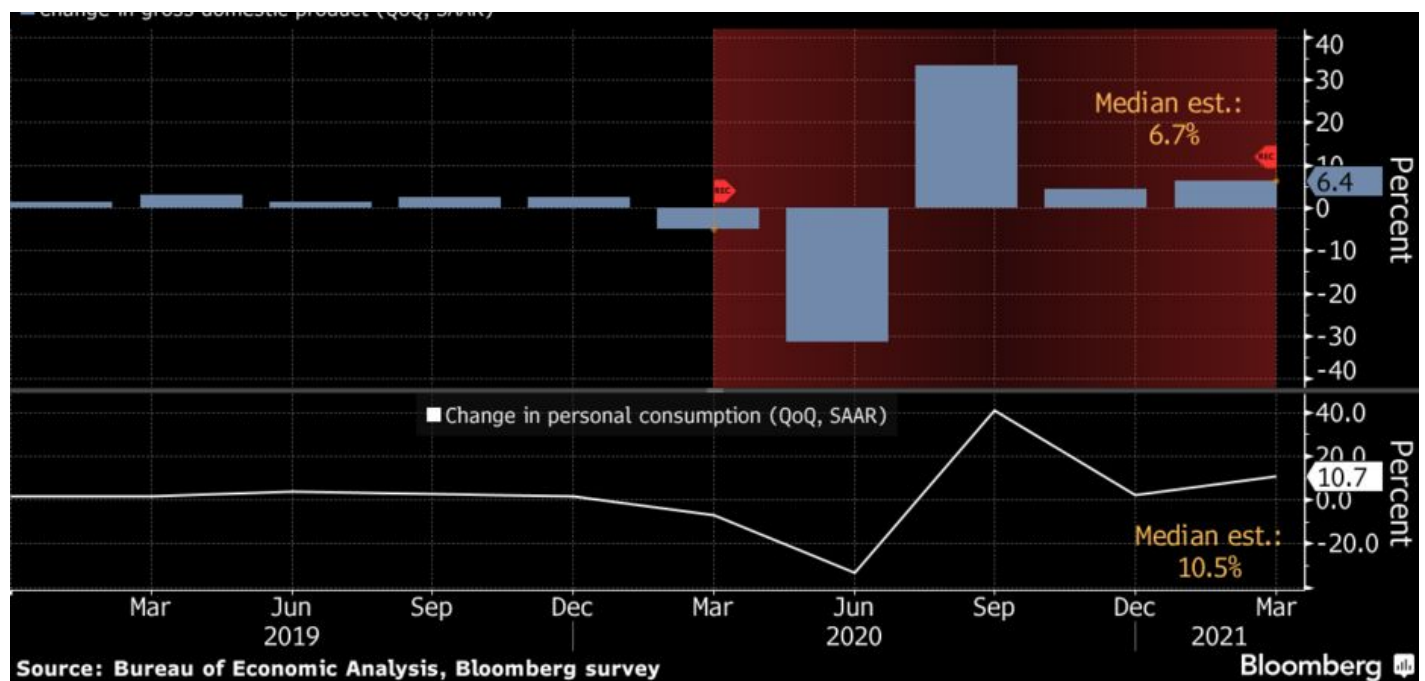
U.S. economic growth accelerated in the first quarter as a rush of consumer spending helped bring total output to the cusp of its pre-pandemic level, foreshadowing further impressive gains in coming months.

Gross domestic product expanded at a 6.4% annualized rate following a softer 4.3% pace in the fourth quarter, the Commerce Department's preliminary estimate showed Thursday. Personal consumption, the biggest part of the economy, surged an annualized 10.7%, the second-fastest since the 1960s.

Recovery Taking Hold

U.S. GDP jumped 6.4% in first quarter amid strong consumer spending

■ Change in gross domestic product (QoQ, SAAR)



The inflation-adjusted value of domestically produced goods and services climbed to an annualized \$19.1 trillion, indicating GDP will soon eclipse the pre-pandemic peak of nearly \$19.3 trillion.

U.S. equities climbed to all-time highs after the GDP report and a batch of corporate earnings.

Rising vaccinations, faster job growth and two rounds of federal stimulus payments combined to supercharge household spending. As government restrictions on activity are widely lifted, consumer demand is seen broadening and driving outlays for long-downtrodden services such as travel and leisure.

A host of high-frequency data, including restaurant and air travel bookings, already confirms a rapidly improving economy that has helped drive stock prices to fresh highs.

The pent-up demand that's seen driving outsize growth this year is propelling prices skyward at the same time producers are experiencing material shortages and supply-chain challenges. Further, the Biden administration and the Federal Reserve are pushing ahead with policy prescriptions that provide even more juice for the economy.

[Read more: Fed Upgrades View of Economy While Keeping Rates Near Zero](#)

The median forecast in a Bloomberg survey of economists called for 6.7% growth in the January through March period.

The pace of government spending jumped at a 6.3% annual rate, the fastest since 2002 and a reflection of federal stimulus. Annualized non-defense outlays climbed by the most since 1963.

The pickup in growth in the January to March period also reflected continued strength in business investment and housing. Non-residential investment rose an annualized 9.9%, driven by equipment and intellectual property, while residential investment increased at a 10.8% rate.

Trade, Inventories

Firm household and business spending has left inventories lean and spurred import demand -- two areas that weighed on first-quarter growth. Net exports of goods and services subtracted 0.87 percentage point from GDP, while the change in inventories subtracted 2.64 points.



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“When you get a GDP report that features accelerating consumption and declining inventories, it can be considered even stronger than the headline number might suggest,” said Kevin Cummins, chief U.S. economist at NatWest Markets. “I’m really optimistic about the growth path we’re going to have over the next three or four quarters.”

Excluding the trade and inventories components of GDP, final sales to private domestic purchasers, a gauge of underlying demand, accelerated to a 10.6% pace.

U.S. growth forecasts have been upgraded over the past few months after the \$1.9 trillion pandemic relief bill that passed through Congress along party lines proved to be larger than many economists originally expected.

What Bloomberg Economics Says...

“The 6.4% jump in economic growth in the first quarter allowed real GDP to recuperate 91% of the pandemic-induced plunge. Bloomberg Economics’ estimate for growth to accelerate to 9.6% in the second quarter would lift the level of activity above its pre-crisis mark.”

-- Yelena Shulyatyeva and Carl Riccadonna, economists

Read the full report, [click here](#).

In addition, President Joe Biden has now proposed two additional spending plans -- one focused on infrastructure and the other on families -- that would infuse trillions more dollars into the economy over the next decade.

Read more: Biden Unveils Massive Family Aid Plan Funded by Taxing Rich

Meanwhile, Fed officials are sticking with their ultra-easy monetary policy to ensure businesses have access to capital and consumers can borrow cheaply for big-ticket items such as homes and cars.

“We were in a deep, deep hole a year ago and now with a lot of help from fiscal policy, some additional help from monetary policy, and a great deal of help from vaccination, we’re seeing a strong rebound in activity,” Fed Chair Jerome Powell said during a press conference Wednesday after the central bank’s policy meeting.

While acknowledging the economy’s progress, the Fed kept its key interest rate near zero and maintained its \$120 billion monthly pace of bond purchases. In their statement, policy makers said that while inflation has picked up, it mostly reflected “transitory factors.”

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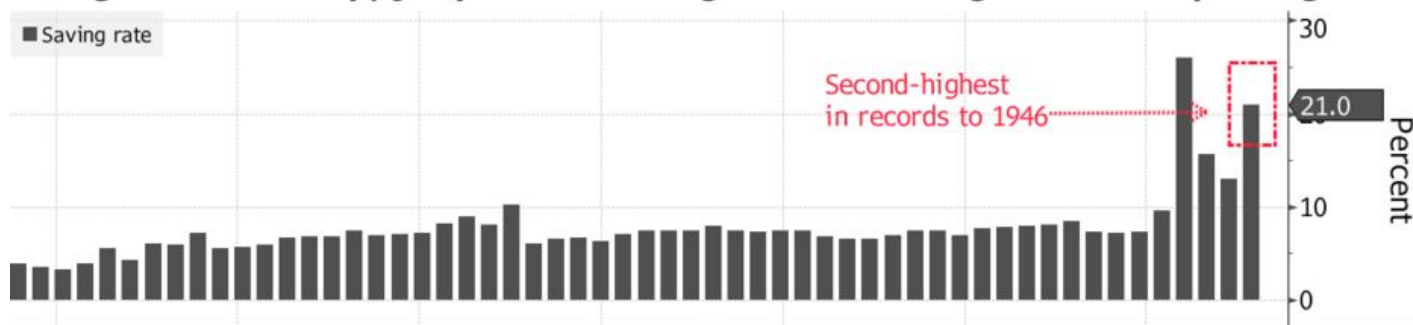
The GDP report showed the personal consumption expenditures price index excluding food and energy costs climbed an annualized 2.3% in the first quarter after a 1.3% pace in the previous three months.

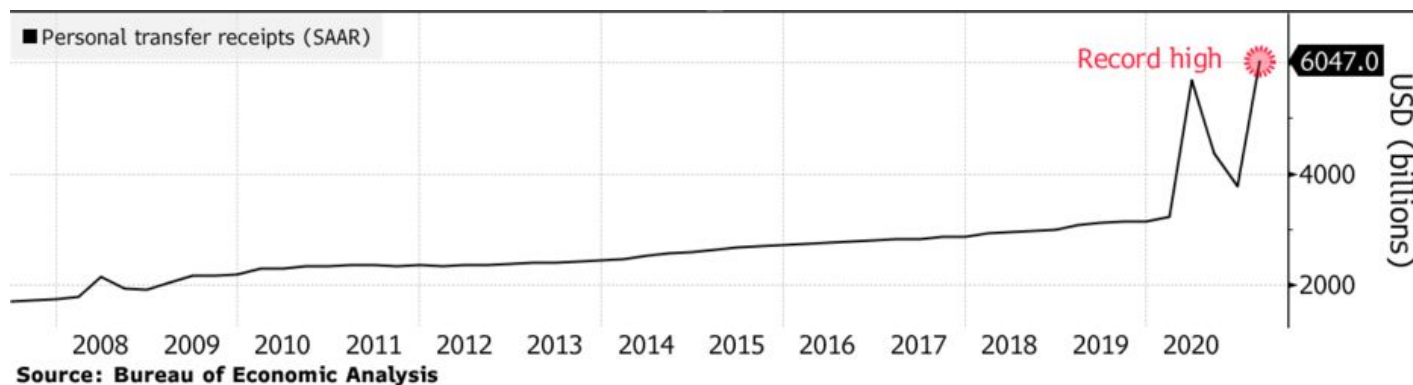
While overall output has yet to surpass pre-pandemic levels, the value of nonresidential investment has and personal consumption is just tens of billions of dollars from doing so.

Disposable personal income jumped in the quarter by the most on record, to an annualized \$19.6 trillion, after the pandemic relief bills passed in December and March distributed direct payments to millions of families and re-instituted a weekly top-up in unemployment benefits. The personal saving rate climbed to 21% in the quarter, the second highest on record.

More Tinder

With government help, jump in U.S. savings is seen fueling additional spending





Digging Deeper

Household spending on merchandise rose an annualized 23.6%, while outlays for services accelerated to a 4.6% pace

A separate report on Thursday showed applications for state unemployment benefits declined to a 13-month low of 553,000 from 566,000

The first-quarter GDP figures will be revised in May and June as additional source data are compiled

– With assistance by Kristy Scheuble, Olivia Rockeman, and Sophie Caronello

(Adds comment from Bloomberg Economics)

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