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TRENDMACRO LIVE!

On Q1 GDP: Missed It By That Much!

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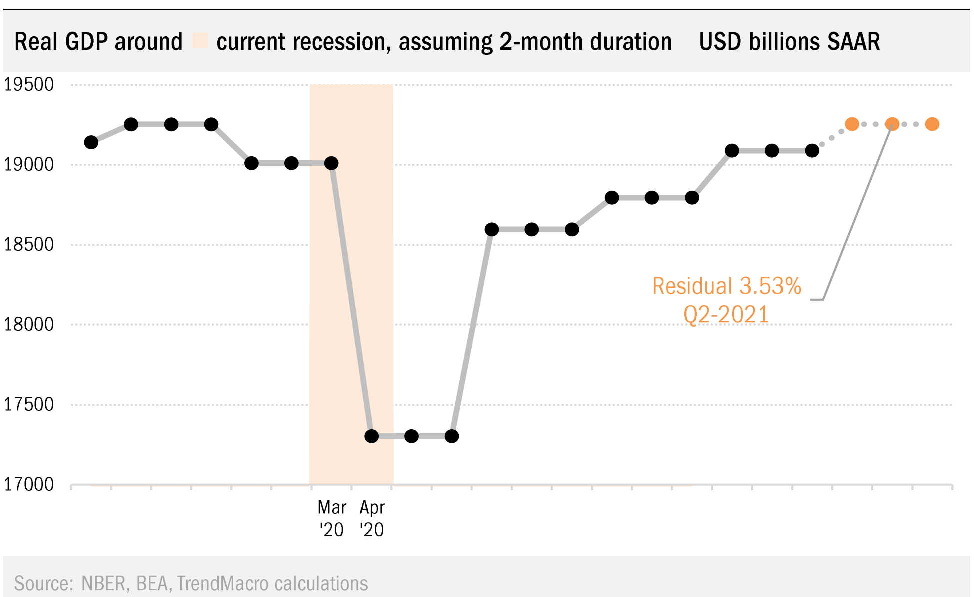
Donald Luskin

Less than 1% off the pre-pandemic output peak with only 95% of the workforce. Boom!

Oh, this hurts. You can't believe how much we wanted to be doing a victory dance right now. But the reality is that with this morning's Q1-2021 GDP report showing real growth of 6.4% at a seasonally adjusted annual rate (see "Data Insights: GDP" April 29, 2021), the US economy didn't quite live up to our insanely out-of-consensus prediction just over a year ago that it would return to pre-pandemic levels within three quarters – a classic V-shaped recovery (see "On the March Jobs Report, and Being in Recession (Whatever that Means)" April 3, 2020). *It's so close it's ridiculous*: the Q4-2019 business cycle peak at $19.25 trillion is *just 0.87%* above today's reported Q1-2021 level at $19.10 trillion. Q2-2021 growth reported at a mere 3.53% annual rate will close that gap (please see the chart below). *Missed it by that much!*



Update to strategic view

US MACRO: Q1-2021 GDP barely missed a full V-shaped recovery to the Q4-2019 pre-pandemic peak, leaving a mere 0.87% to go, which will get done if Q2-2021 is at least 3.53% at an annual rate. We had predicted more than a year ago that the recovery would take no more than three quarters, and we barely missed. February's weather disaster played a role, and the massive third round of stimulus and unemployment benefits held back re-employment and re-opening of service-intensive businesses. This near-total recovery to pre-pandemic GDP levels has been accomplished with only 95% of the workforce employed at peak, implying an astonishing productivity revolution that sets the stage for an economic boom.

[Strategy dashboard]

- There are no excuses. But here are our excuses.
- *February was a disastrous weather month* (see "On the February Jobs Report" March 5, 2021). This had the effect of setting back the end of the stay-at-home pandemic year with a whole new reason to stay inside just when you were coming out. And it struck at the area of the economy that has seen the most rapid growth surge coming out of the recession – residential investment.
- This is hard to quantify, but we are certain that *the third and largest round of stimulus checks distributed in the quarter, and the extension of generous federal top-ups to state unemployment benefits, also held back the full potential for recovery*. As a result of it, disposable personal income per capita rose at an astonishing 67% at a seasonally adjusted annual rate, and that will be fuel for pent-up demand in coming quarters. But for now, and for certain workers, it is also a reason to remain unemployed – in which case it is a dead-weight loss, consumed in the form of leisure. That means it's harder for service-intensive businesses, the sector hardest hit in the pandemic lockdowns, to reopen. If you have any doubts, just dare to get out of the house and count the "help wanted" signs. Or stay in a hotel or experience some other service-intensive business and judge for yourself whether staffing levels are sufficient to meet your expectations.
- And our final excuse, used by economic forecasters since the Earth was cool: *it will be revised upward.*

But seriously, let's not fail to step back and consider how astonishing even this slightly disappointing GDP result is, and what it implies for the future.

- *Q1-2021 GDP is just 0.86% below the pre-pandemic peak in Q4 2019. Yet payrolls are down 7.8 million, or 5.1%.*
- *Do you see how remarkable it is that we are already basically back to peak GDP with less than 95% of the workforce we were using at peak?*
- *That implies a productivity revolution driven by the tragic rigors of the pandemic. Under the yoke of necessity, we have learned to do as much with less. And when we re-employ those 7.8 million, we'll be doing more with more.*
- *One more time: we are heading into a boom.*

Bottom line

Q1-2021 GDP barely missed a full V-shaped recovery to the Q4-2019 pre-pandemic peak, leaving a mere 0.87% to go, which will get done if Q2-2021 is at least 3.53% at an annual rate. We had predicted more than a year ago that the recovery would take no more than three quarters, and we barely missed. February's weather disaster played a role, and the massive third round of stimulus and unemployment benefits held back re-employment and re-opening of service-intensive businesses. This near-total recovery to pre-pandemic GDP levels has been accomplished with only 95% of the workforce employed at peak, implying an astonishing productivity revolution that sets the stage for an economic boom.

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