Highlights of the 2020:Q1 US GDP Report

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US real GDP declined markedly in 2020:Q1

The 4.8 percent drop (annual rate) brought the longest US expansion on record to an end.

Many analysts think the decline will be revised downward in subsequent releases as more complete source data become available.

Shaded area marks last recession
Data from US Bureau of Economic Analysis via FRED
Consumer spending (by far the largest category of GDP) weighed most heavily on growth

2020:Q1 Real GDP Growth and Its Components

- Housing was very strong early in the year because of mild weather
- Exports fell sharply but imports fell by even more

Percentage point contribution to real GDP growth (annual rate)

Data from US Bureau of Economic Analysis

5/4/20 Dynan - CF40 Pu Shan Lecture
Consumer spending plunged in March

Monthly Personal Consumption Expenditures

Trillions of 2012 dollars

Consumer spending rose in January and February but then plunged 7.3 percent (not at an annual rate) in March

Shaded area marks last recession
Data from US Bureau of Economic Analysis via FRED
Spending patterns reflect social distancing

<table>
<thead>
<tr>
<th>Category</th>
<th>% Change in March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Personal Consumption Expenditures</td>
<td>-7.3</td>
</tr>
<tr>
<td>Durable goods</td>
<td></td>
</tr>
<tr>
<td>Motor vehicles and parts</td>
<td>-26.2</td>
</tr>
<tr>
<td>Furnishings and durable household equipment</td>
<td>-8.3</td>
</tr>
<tr>
<td>Recreational goods and vehicles</td>
<td>-6.3</td>
</tr>
<tr>
<td>Other durable goods</td>
<td>-14.4</td>
</tr>
<tr>
<td>Nondurable goods</td>
<td>4.3</td>
</tr>
<tr>
<td>Food and beverages for off-premises consumption</td>
<td>19.1</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>-28.2</td>
</tr>
<tr>
<td>Gasoline and other energy goods</td>
<td>-5.3</td>
</tr>
<tr>
<td>Other nondurable goods</td>
<td>4.7</td>
</tr>
<tr>
<td>Services</td>
<td>-9.5</td>
</tr>
<tr>
<td>Housing and utilities</td>
<td>0.0</td>
</tr>
<tr>
<td>Transportation services</td>
<td>-23.7</td>
</tr>
<tr>
<td>Recreation services</td>
<td>-29.7</td>
</tr>
<tr>
<td>Food services and accommodations</td>
<td>-25.9</td>
</tr>
<tr>
<td>Health care</td>
<td>-16.2</td>
</tr>
<tr>
<td>Financial services and insurance</td>
<td>0.2</td>
</tr>
<tr>
<td>Other services</td>
<td>-8.6</td>
</tr>
</tbody>
</table>

Consumers particularly avoided spending that would bring them in close proximity with others.

Spending on COVID care was way up but consumers eschewed other types of health care.
The personal saving rate jumped in March

The decline in consumer spending was much larger than the decline in income in March.

As a result, the personal saving rate jumped to its highest level in nearly 40 years.

Data from US Bureau of Economic Analysis via FRED
Higher personal saving is much needed given how little cash buffer many households have.

US households in the lower 60 percent of the income distribution had only a few weeks of liquid saving as of 2016.

To have a strong recovery, we need to minimize the number of households who are wiped out financially by the tough times ahead.

Liquid Financial Assets
Expressed in weeks of "normal" income

"Normal" income quintile

Calculations based on data from the 2016 Survey of Consumer Finances.
Both headline and “core” prices declined in March

The virus containment measures are suppressing both supply and demand

Broad indexes of prices suggest that demand has fallen more than supply

Data from US Bureau of Economic Analysis via FRED
More timely economic indicators suggest that US economic activity has fallen much further in 2020:Q2

An index based on 10 weekly indicators capturing retail sales, lay-offs, energy use, steel production, and other factors suggests that activity is well below that of a year ago.

Economists expect real GDP to decline at an annual rate of 30 to 50 percent in 2020:Q2.
Unemployment insurance filings suggest that the unemployment rate has soared in 2020:Q2

Many economists think the US unemployment rate may reach 20 percent or higher by the early summer—the worst reading since the Great Depression.
The economic outlook depends on how quickly we build the capacity to do testing, tracking and other means of virus containment.

Many forecasters think recovery will commence in the early summer (example below).

But we’ll only dig partway out of the hole by the end of the year so growth rates for 2020 as a whole will be significantly negative.

### Real GDP Growth

Q4/Q4 percent change

- **IMF (4/14)**: -5.4, 4.9
- **CBO (4/24)**: -5.6, 2.8
- **WSJ Forecaster Survey (4/8)**: -4.9, 5.3

[Graph showing U.S. Real GDP with data points for Q1-Q4 2019, 2020, and 2021.]
Thank you!