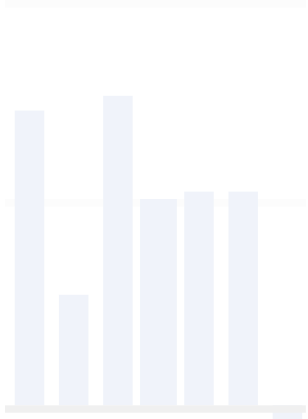


Highlights of the 2020:Q1 US GDP Report



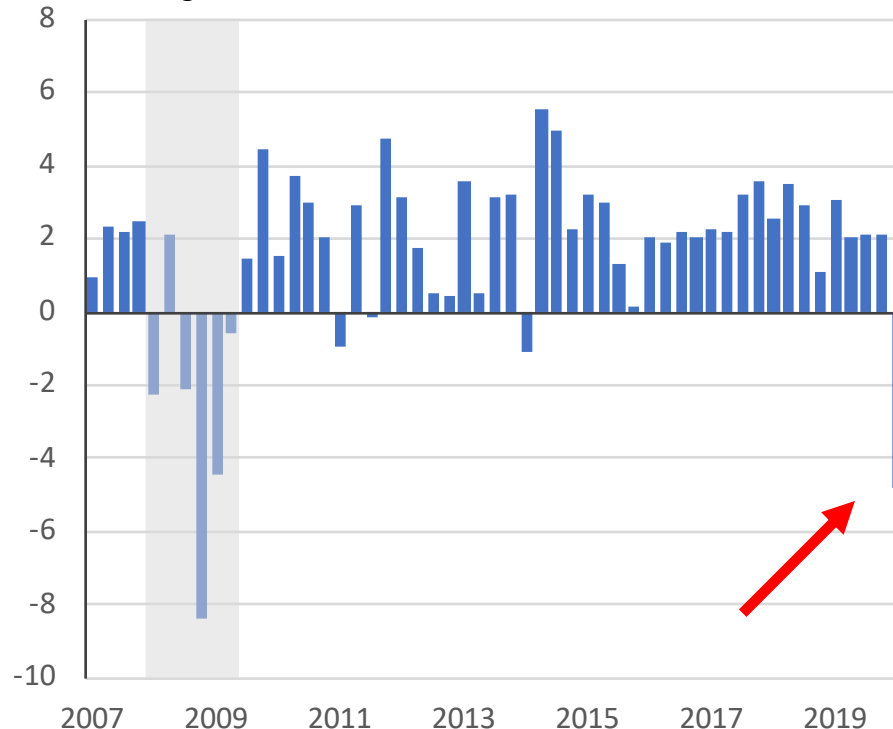
**Karen Dynan
Harvard University and Peterson
Institute for International
Economics**

**China Finance 40 Forum
Pu Shan Lecture**
May 4, 2020

US real GDP declined markedly in 2020:Q1

US Real GDP

Percent change, annual rate



Shaded area marks last recession

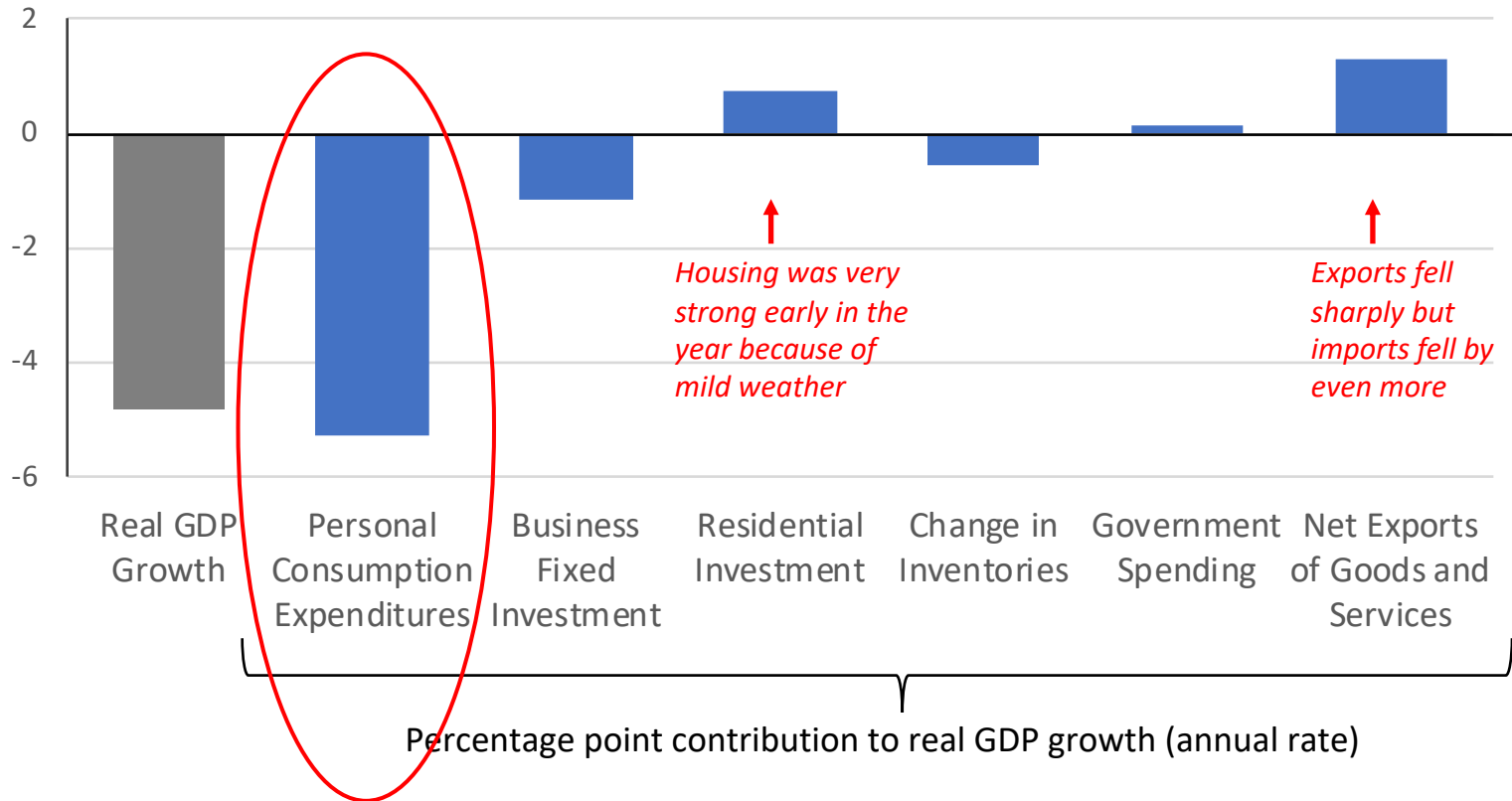
Data from US Bureau of Economic Analysis via [FRED](#)

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

Consumer spending (by far the largest category of GDP) weighed most heavily on growth

2020:Q1 Real GDP Growth and Its Components

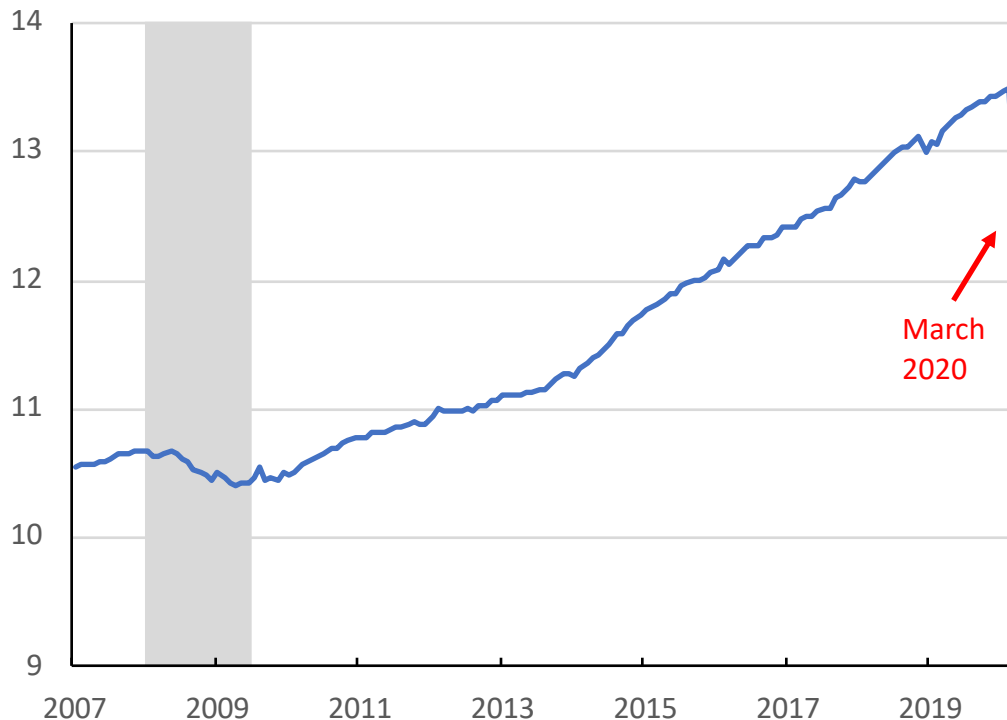


Data from US [Bureau of Economic Analysis](#)

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](#)

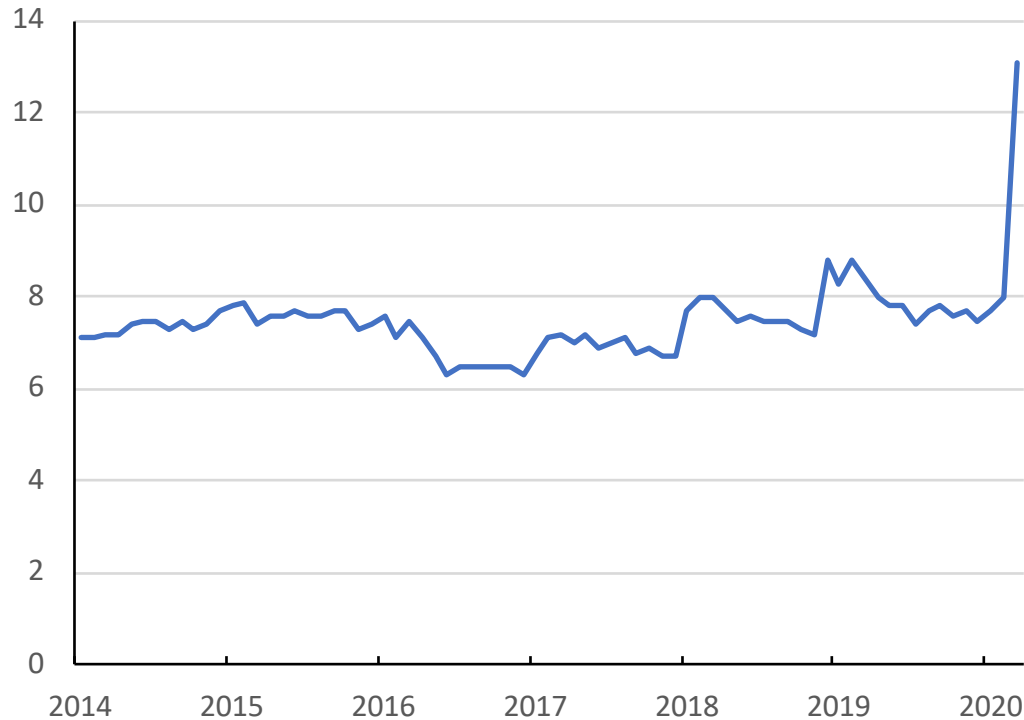
Spending patterns reflect social distancing

	% Change in March 2020	
Total Personal Consumption Expenditures	-7.3	
Durable goods	-14.8	
Motor vehicles and parts	-26.2	← <i>Consumers particularly avoided spending that would bring them in close proximity with others</i>
Furnishings and durable household equipment	-8.3	
Recreational goods and vehicles	-6.3	
Other durable goods	-14.4	
Nondurable goods	4.3	
Food and beverages for off-premises consumption	19.1	
Clothing and footwear	-28.2	
Gasoline and other energy goods	-5.3	
Other nondurable goods	4.7	
Services	-9.5	
Housing and utilities	0.0	
Transportation services	-23.7	←
Recreation services	-29.7	
Food services and accommodations	-25.9	
Health care	-16.2	← <i>Spending on COVID care was way up but consumers eschewed other types of health care</i>
Financial services and insurance	0.2	
Other services	-8.6	

The personal saving rate jumped in March

Personal Saving Rate

Percent of disposable personal income



Data from US Bureau of Economic Analysis via [FRED](#)

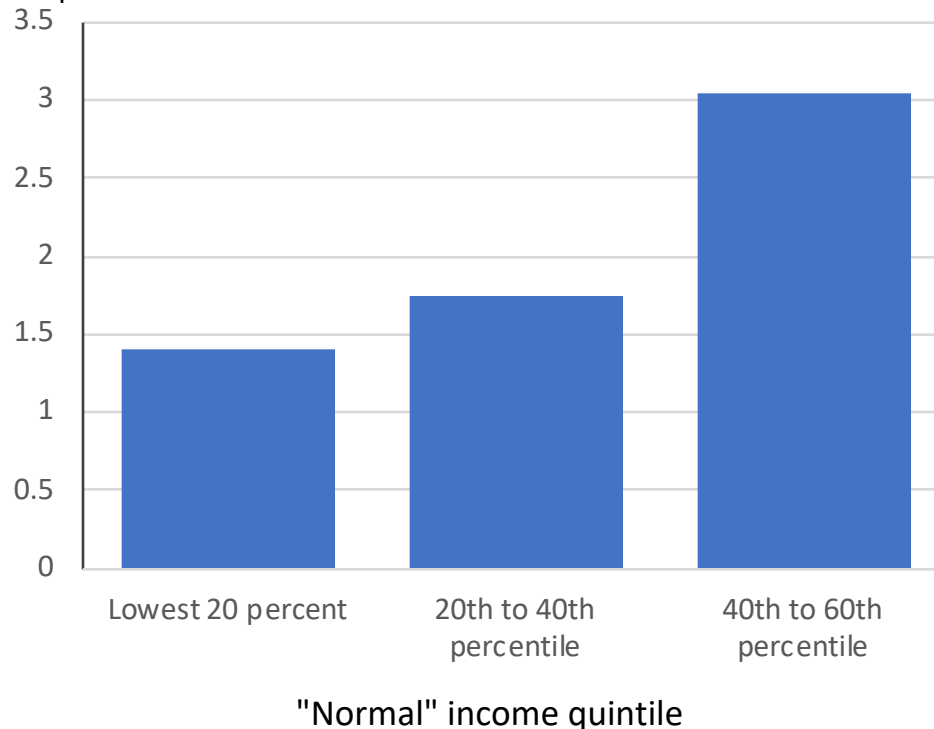
The decline in consumer spending was much larger than the decline in income in March

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

Higher personal saving is much needed given how little cash buffer many households have

Liquid Financial Assets

Expressed in weeks of "normal" income



Calculations based on data from the 2016 [Survey of Consumer Finances](#)

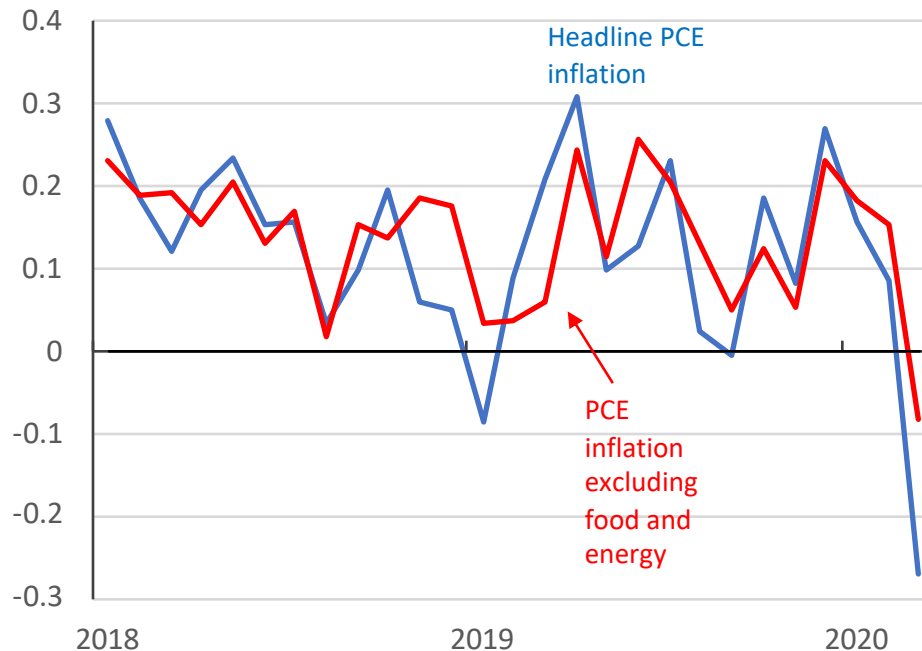
US households in the lower 60 percent of the income distribution had only a few weeks of liquid saving as of 2016

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

Both headline and “core” prices declined in March

PCE Price Inflation

Percent change from preceding month



Data from US Bureau of Economic Analysis via [FRED](#)

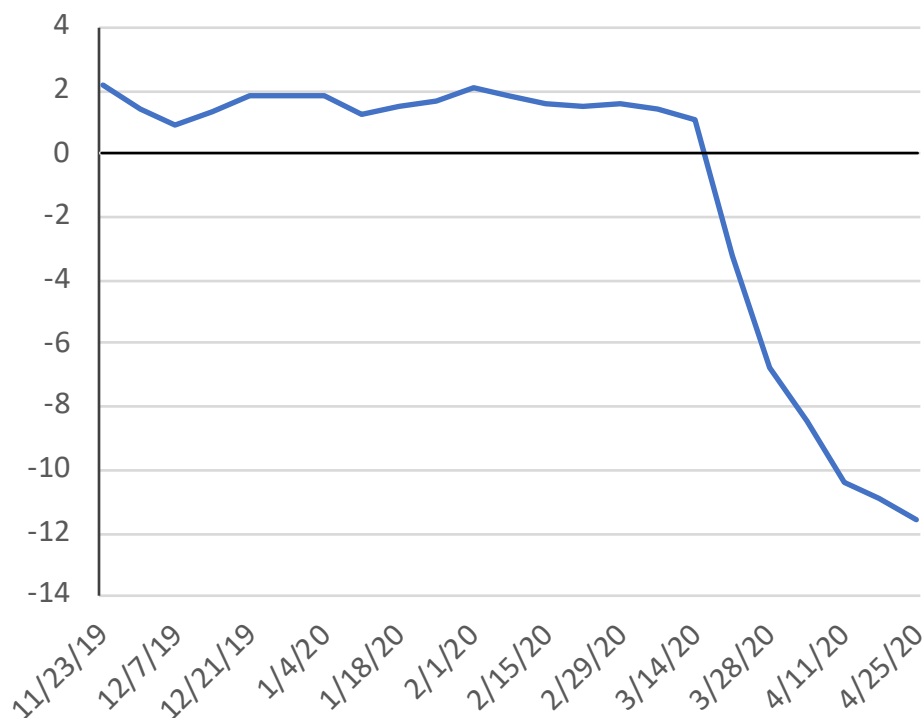
The virus containment measures are suppressing both supply and demand

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

More timely economic indicators suggest that US economic activity has fallen much further in 2020:Q2

Weekly Economic Index

Scaled to correspond to the 4-quarter % change in real GDP



Data from [Lewis, Mertens, and Stock](#) (2020)

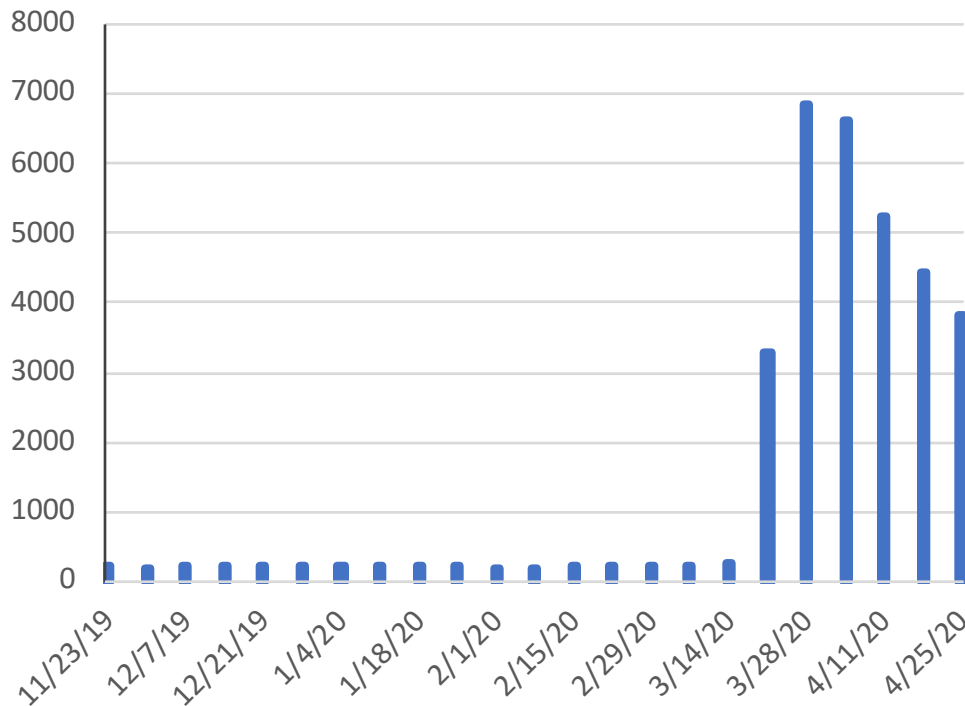
An index based on 10 weekly indicators capturing retail sales, lay-offs, energy use, steel production, and other factors suggests that activity is well below that of a year ago

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

Initial Claims for Unemployment Insurance

Thousands



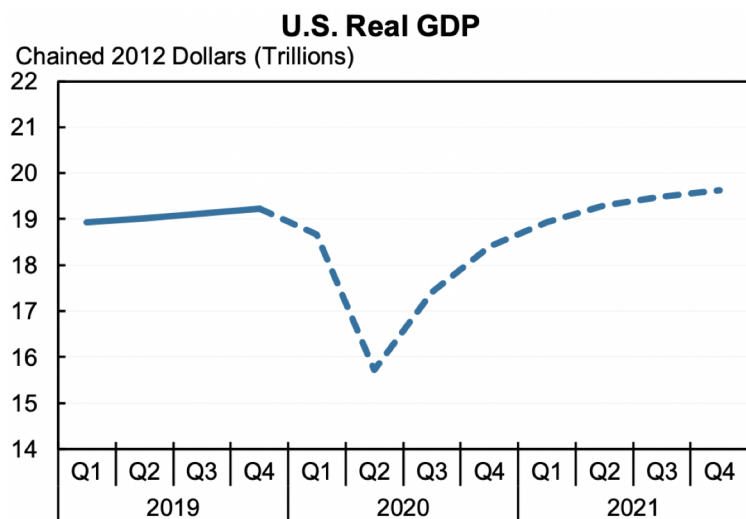
Data from US Department of Labor via [FRED](#)

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)

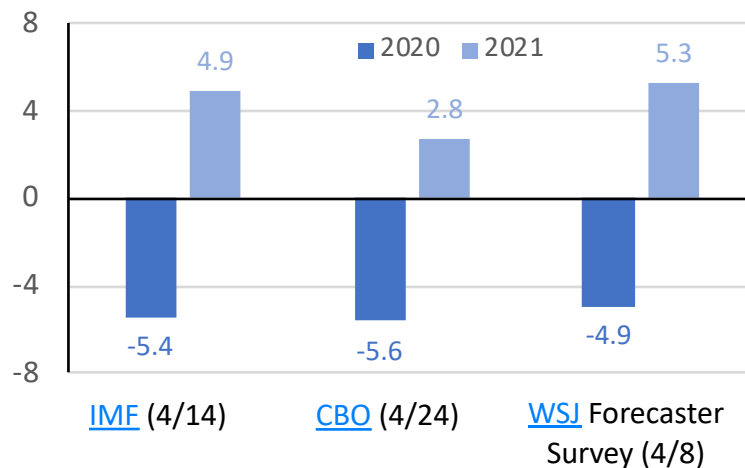
But we'll only dig partway out of the hole by the end of the year so growth rates for 2020 as a whole will be significantly negative



Screenshot from [Dyanan](#) (2020)

Real GDP Growth

Q4/Q4 percent change



Thank you!