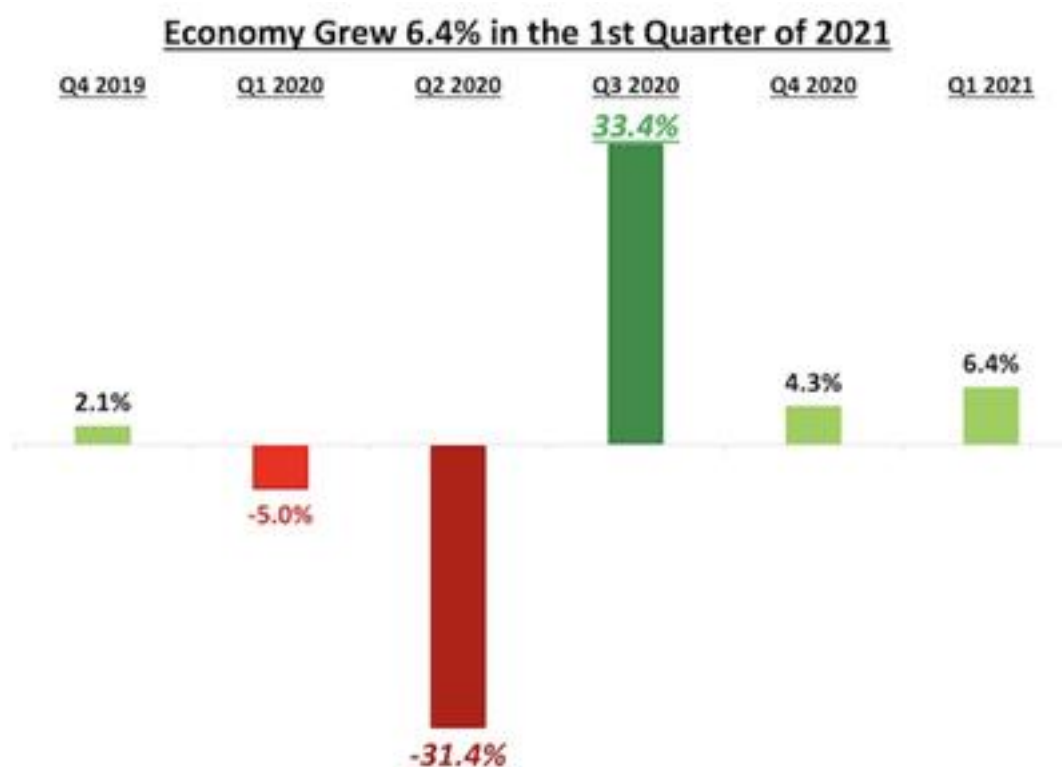


First Quarter GDP Beats Expectations

We learned today that the U.S. economy grew at 6.4% in the first quarter of this year. We were expecting growth of around 6%, so this was higher than our expectations.

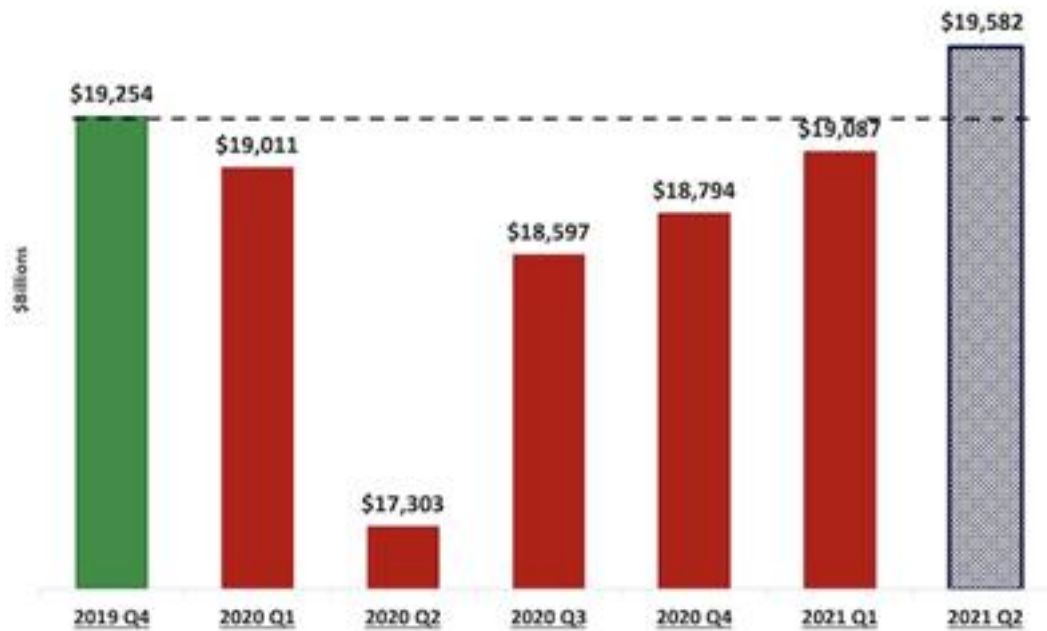
The economy grew 4.3% in the 4th quarter of 2020. The growth last quarter is a pickup from that decent pace. The economy benefitted from rising vaccinations, lower virus cases, and a fresh infusion of government stimulus checks in February and March. Consumption, business investment, real estate, and government spending were all up.



Big picture: The strong growth last quarter is the latest sign of the remarkable recovery the economy has had from the COVID-19 recession. This is a testament to the underlying strength of the U.S. economy prior to the pandemic, the incredibly strong tendency of the economy to grow absent outside catastrophes and bad policies, the excellent response from the Federal Reserve, and the large fiscal support from Congress.

The economy has now grown enough since the second quarter of last year, when it bottomed out because of the COVID-19 shutdown, that it is now roughly the same size it was before the pandemic struck. Since the recession didn't start until late March, this means it took a year for it to rebound. That is one-third the time it took for the economy to reach its size prior to the Great Recession, when it took more than 3 years to recover.

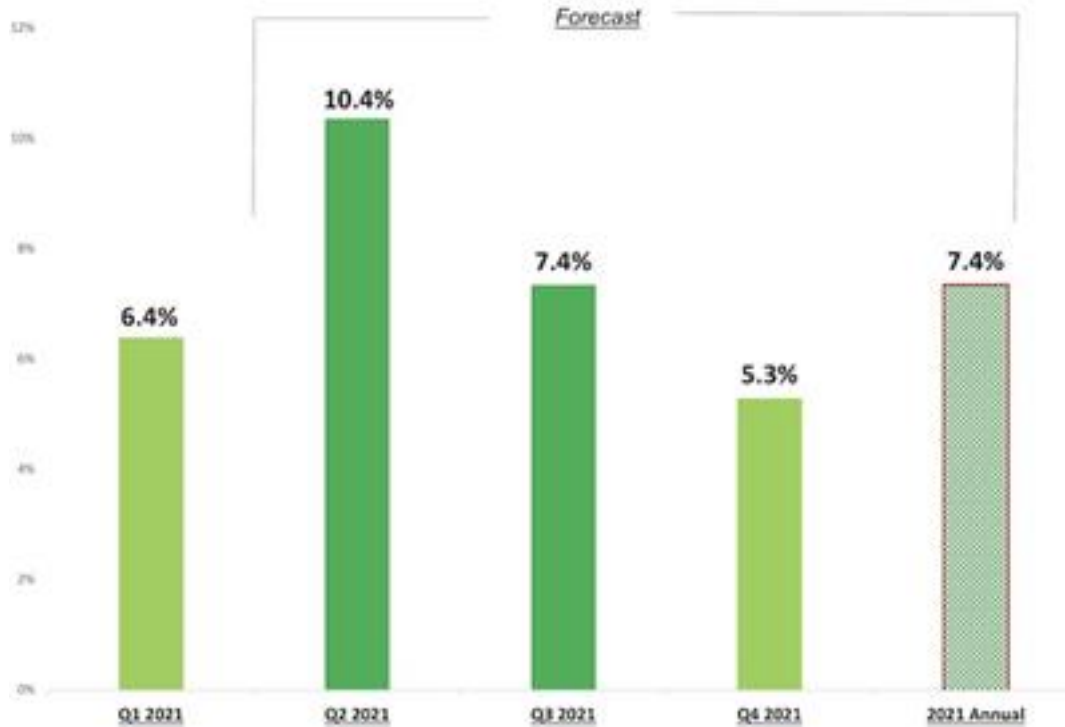
GDP About Back to Pre-Shock Level



Even more remarkably, the economy could return to the size *it would've been* had COVID-19 never interrupted its growth by late this year and then grow above that level. It will take growing above the previous trend for a long time to replace the lost output during the shutdown, but this is still great news.

Looking ahead: The economy is going to grow even faster the rest of the year as vaccinations rise and case levels fall, allowing the beleaguered service sector to revive. We are anticipating growth of 10% in the second quarter and more than 7% in the third quarter.

The Economy Will Grow Strongly in the Middle of 2021



The downside risks are rapid inflation (which grew 3.5% in Q1), an unanticipated viral surge, and large policy shifts from Washington. Absent those events, we should enjoy economic growth at levels we haven't seen in many years.

—Curtis Dubay, Senior Economist, U.S. Chamber of Commerce