The Growth of US GDP: Economic Recovery or Just Another Rebound? "If We are To Believe the Numbers"

By Dr. Jack Rasmus
Global Research, May 04, 2021
Region: USA
Theme: Global Economy

All Global Research articles **can be read in 51 languages by activating the "Translate Website"** drop down menu on the top banner of our home page (Desktop version).

***

This past week the US Commerce Department released its early estimates for US GDP for the 1st Quarter 2021, January through March. If we are to believe the numbers, the US economy grew a respectable 6.4% during the period. But did it really? And does it represent a strong recovery underway? Or just a rebound, as the economy reopens in the services sector; and once the reopening concludes, will the economy flatten out again—as it did with last summer's 2020 partial reopening that collapsed in late 2020?

The first thing for readers to understand is the **6.4% is not really 6.4%** for the first three months of 2021. The US is one of the few countries that reports its GDP figures in an 'Annual Rate' (AR) percentage. Most other advanced economies do not. Annual Rate reporting takes the actual growth for the period and then multiplies it by four. In other words, a 6.4% annual rate GDP means if the economy continues to grow as it did in the first quarter 2021 than it will amount to a 6.4% for the next twelve months! That means the actual GDP growth for the first quarter was about one-fourth of 6.4%. That **actual growth was 1.6%** over the previous, fourth quarter of 2020.

Another obfuscation in the official numbers is that the US sometimes reports the gain for the quarter compared to the same quarter a year ago, and therefore not the previous calendar quarter. What is important is how much the economy grew in the quarter compared to the preceding quarter—and not compared to a quarter twelve months ago.

Source: US Bureau of Economic Analysis

On top of all this, it's important to understand that 'real GDP' (the 6.4% annual rate overestimation) is obtained by reducing what's called 'money GDP' from the rate of inflation. So if the rate of inflation is underestimated, then real GDP appears higher than it actually is. And the US always underestimates inflation in order to get a higher real GDP number. It does this in many ways. For example, it doesn't use the Consumer Price Index (CPI) to estimate the inflation. It uses another price index, called the 'GDP Deflator'. Its number for the overall level of inflation is always much less than the CPI. There are many ways the US further underestimates inflation. Without going into boring statistical details, another way is called ‘chained pricing’. Another is to reduce prices based upon absurd assumptions that improvements in the quality of various products subtracts from their actual price increases. For example, rising prices for computers and smart phones actually show up as price declines. Apple may charge $800 for a new edition smart phone, a hike of $100-$200, but the Commerce Dept. will include it in its inflation estimate as a price decline!

The actual 1st quarter 2021 US GDP growth is therefore only 1.6%–when the ‘annual rate’ puffery is discounted; and that still ignores the manipulation of inflation in order to boost real GDP still further.

So does this 1.6% represent a robust growth? And what is causing it? And will the cause continue?

It’s important to distinguish between an economic REBOUND which is temporary and an actual economic RECOVERY that is sustained. Rebounds dissipate. Real recoveries continue to show a rise in GDP over several quarters into the future.

Last summer 2020 at this time the US economy partially reopened. Especially in the red states that ignored the shutdowns. The US economy experienced a Rebound as a result of the reopening from roughly mid-June 2020 to mid-August. That rebound then faded and in September the economy began to weaken again. That weakening continued through the last three months of 2020 as the economy almost totally stagnated. Here’s the actual quarter to quarter GDP numbers (not reflecting the ‘annual rate’ puffery):

In the first half of 2020 the US economy collapsed by an historic -10.5%. That included the decline that set in during February as the Covid virus began to hit the economy. April-May were the hardest hit months, followed by early June. By mid-June the economy was reopening (prematurely it turned out). The reopening resulted in a REBOUND from mid-June through August. That produced a 3rd Quarter GDP rise of roughly 7.4% (discounting the annual rate nonsense again). So the US economy recovered about two-thirds of its historic collapse in the first half mostly due to the reopening.

The alleged $2.2 Trillion ‘Cares Act’ fiscal stimulus passed in March contributed some to the REBOUND of the summer, but not all that much. It was mostly due to the reopening. The Cares Act, as reported by the media, amounted to $2.2T stimulus. But that was misrepresented by half! It provided only $1.3 trillion—not $2.2T. Here’s why: $500 billion was provided by the $1200 income checks households received plus the expanded unemployment benefits. Another $525 billion was provided by the PPP small business loan/grants (mostly latter) program. (An initial $350 billion was provided in March but then another emergency supplement was added to bring the total spending on PPP to $525 billion by August). So that’s just a little over $1 trillion. Another $1.1 trillion was earmarked for loans to medium and large businesses, to be distributed through the Federal Reserve US central bank. But only $175 billion was actually loaned out through the Fed’s so-called ‘Main St.’ program by year end. (The Fed sat on $455 billion and then returned it to the US Treasury in December 2020).

So the actual first stimulus, Cares Act, only provided $1.3 trillion into the US economy ($1.025T in checks, benefits, and PPP) plus $175 billion from the Fed. A good part of all that did not get into the economy, but was ‘hoarded’ by better off households and businesses and not spent or used to buy down their debt loads. Probably no more than $800 billion actually got into the economy. In short, the 3rd quarter GDP growth of 7.4% was thus mostly due to the reopening and not the inadequate fiscal stimulus called the CARES Act.

Politicians knew, by the way, that the Cares Act was not a stimulus measure. It was a 'mitigation' bill and they called it that. Mitigation means putting a floor under the economic collapse for 2-3 months. It doesn't mean a spending surge that would result in a sustained economic recovery. Mitigation bills produce REBOUNDs, at best; not sustained recoveries. And that's what the Cares Act did. It bought some time over the summer, as the economy partially reopened.

But the Cares Act spending ($1.3T minus hoarding and debt repayment) dissipated by the end of summer 2020. And only part of the economy reopened by summer's end 2020. Consequently the US economy faltered and stagnated in the final months of 2020.

US GDP growth in the 4th quarter 2020 thus registered a mere 1.1% actual growth, which was probably zero growth due to inflation underestimation. This was followed by the 1st quarter 2021 initial GDP numbers reported last week showing a 2021 growth of only 1.6%. That too was due largely to the reopening of the US economy, and not to the emergency fiscal stimulus of another $866 billion passed at the end of December, which provided a continuation of unemployment benefits and a small $600 check to households. The December emergency measure was also a 'mitigation' measure, not a stimulus. It dissipated by end of February 2021, indicated clearly by a new collapse in consumer retail spending after a brief boost in January.

In short, the 1st quarter 2021 GDP growth of only 1.6% is due to the second reopening of the US economy in 2021 as the vaccines for the virus were distributed.

So here's a summary of the actual growth of the US economy from February 2020 through March 2021:

- January-June 2020: -10.5%
- July-September 2020: 7.4%
- October-December 2020: 1.1%
- January-March 2021: 1.6%

The average historical GDP growth rate in recent decades has been around 1.8% to 2.2%. So the current 1.6% is not even average! Moreover, it will slow as the reopening of the service sectors of the economy hardest hit by the virus become more or less concluded. The question then is: will Biden's much heralded recent 'American Rescue Plan' (Covid relief) fiscal spending measure of another $1.9 trillion, passed by Congress last month, be sufficient to provide spending stimulus to push the economy beyond just a REBOUND to an actual sustained RECOVERY in the second half of 2021?

That remains to be determined. But it should be noted the $1.9T reported by the media is actually only $1.8 trillion. (US Senate cut it by $100B). Moreover, according to the Congressional Budget Office, the research arm of Congress, the actual spending out of the $1.8T for this year 2021 is only $1 trillion, not $1.8T! And one must assume that a good part of that $1T will be hoarded and not spent by wealthier households as they get their $1400 checks, and that they, as well as many small businesses, will undoubtedly use their stimulus to pay down debt. Neither hoarded or debt directed money will get into the actual US economy to boost GDP in the second half of the year, 2021. In reality, it's likely no more than $800 billion stimulus will hit the US economy in 2021. And that's about the same amount compared to the $866 billion passed last December; and less than the Cares Act passed last March 2020!

If the Cares Act and the December emergency stimulus turned out to be mere 'mitigation' fiscal spending, will the current Biden 'American Rescue Plan' $800B result in just another mitigation measure as well?
Is the Biden stimulus of around $800 billion therefore sufficient to generate a sustained RECOVERY and not just another REBOUND after this summer and the effects of the 2021 economy reopening run their course?

Another way of looking at the course of US GDP for the remainder of the year is to break down 1st quarter US GDP by its components. Most of the 1.6% was due to a continuing surge of manufacturing. About three fourths of the growth was manufacturing. Can that sector continue to surge? And it is only about 12% of total US GDP.

Services—80% of the economy—began to recover in the 1st quarter but are still doing so only moderately. Business investment is not surging and inventories—a part of investment—actually continued to collapse in the quarter. The trade deficit was another negative contributor to US GDP. Will it turn around? Residential housing growth is plagued by shortages of homes; it won't contribute much (and is only 4% of GDP anyway). Commercial properties (factories, hotels, parks, malls, office buildings, etc.) are busted. Don't expect growth here either.
Government spending in the 1st quarter was not all that great a contributor to GDP, as the impact of the Biden act won't begin to hit until summer. But again, will $800 billion be enough?

Probably not. Much more government spending will be necessary. But isn't that coming with Biden's 'Infrastructure spending' proposals (i.e. the American Jobs Act') of reportedly another $2.2 trillion. And his recently announced additional 'American Families Plan' of another $1 trillion? Don't hold your breath. Those two bills won't be passed, if at all, until 2022. And if passed, no doubt in much lower amounts and over longer periods of time to have much effect on the US economy—and none on 2021.

To conclude: it is to be determined whether the US economy, based on recent GDP numbers and legislation, will look fundamentally different than what happened in 2020. There is a reopening of the economy underway that will certainly boost GDP some. And there's another $800 billion in mitigation spending. But fiscal stimulus measures in 2020 of roughly that amount show their effects dissipate after a couple months. So will the reopening prove sufficient to generate something more than just another REBOUND 2.0 and a true sustained economic RECOVERY by year end 2021?

That remains to be seen. However, in a number of ways the economic trajectory looks a lot like 2020, in terms of REBOUND and not sustained RECOVERY.

And then there's the economic 'wild card' of Covid. The refusal of 40% of the US population to take advantage of the vaccines indicates there will be no herd immunity attained. The virus will be with use for some time. And the risk is growing that new mutations may prove resistant to the vaccines. What happens then? Another shutdown next winter? If so, expect another fourth quarter 2021 collapse of US GDP growth, just as it did last winter 2020.

Whatever the scenarios, readers should not fall for the statistical hype in the absurd 'annual rate' and inflation adjusted misrepresentations of US real GDP and actual economic growth.

*

Note to readers: please click the share buttons above or below. Forward this article to your email lists. Crosspost on your blog site, internet forums. etc.

This article was originally published on the author's blog site, Jack Rasmus.

Dr. Rasmus is author of the recent book, 'The Scourge of Neoliberalism: US Economic Policy from Reagan to Trump', Clarity Press, 2020. He blogs at http://jackrasmus.com. His twitter handle is @drjackrasmus. And he hosts the weekly radio show, Alternative Visions, on the Progressive Radio Network on Fridays at 2pm eastern time. Check out his website for further books, articles, video presentations, reviews, etc., at http://kyklosproductions.com.

He is a frequent contributor to Global Research.

Featured image is from Pixabay