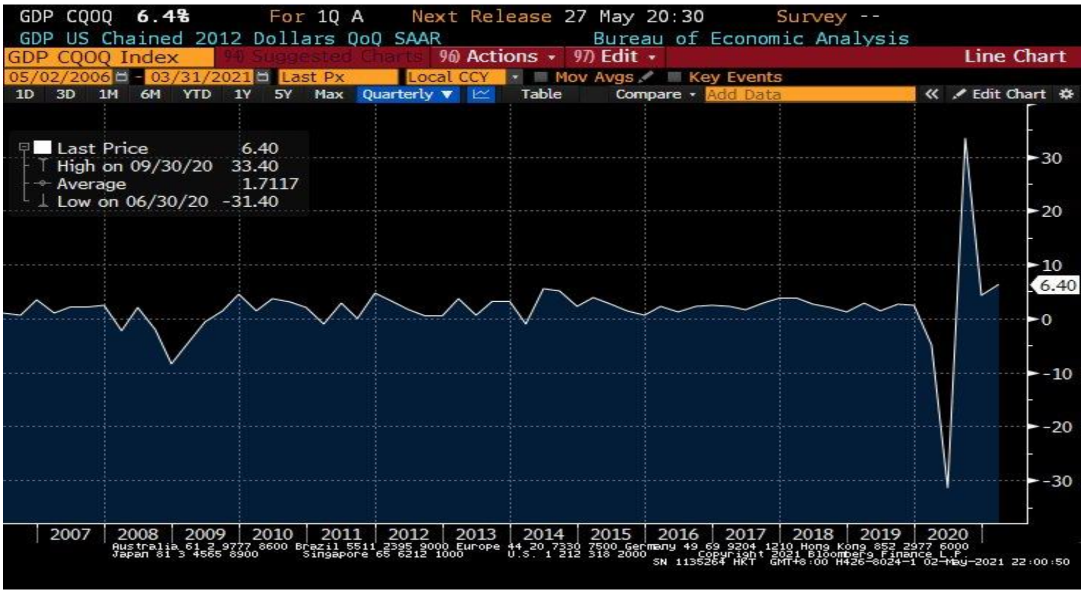
7 May, 2021

Fiscal stimulus drove consumer spending pushed Q1 GDP gain to 6.4%

On Apr 29, US government reported that US first quarter GDP accelerated at a 6.4% annualized rate though it slightly lower than the market median forecast of 6.7%. However, it is already the second fastest GDP growth since third quarter of 2003, left output just 0.9% behind the level at the end of 2019. Such high GDP growth was fueled by the massive fiscal stimulus plans which pushed up the consumer spending, which accounted for more than 2/3 of economic activities. The consumer spending grew by 10.7% in Q1, the second-fastest growth since the 1960s.

US GDP Growth in Q1 2021, recorded a high growth rate of 6.4%, though slightly lower than the market expectation of 6.7%



Source: Bloomberg

Powerful momentum

The Q1 GDP growth was pushed up by three main factors. Relief packages drove consumer spending on goods in the first quarter. Vaccination has made the great contribution in terms of controlling the pandemic and thus economic activities could be resumed. Some pent-demand also came from the compensation for consumption and production laggard in 2020 due to the pandemic.

Massive relief plans

The high GDP expansion last quarter was spurred by two batches of government large economic packages, the $0.9 trillion relief plan passed during the Trump administration, plus the $1.9 trillion stimulus passed in March which shortly after Biden took office. In total, $2.8 trillion have been injected to the US economy in just three months, which is equivalent to 13% of the U.S. GDP. Under the two large spending, most Americans can receive $600 per person from the relief package passed by the end of 2020, plus $1,400 more from stimulus approved in March. According to most surveys, although some of the pay cheques may go to savings and investments, such as investing in stocks or cryptocurrencies, a substantial amount still transfer to consumer spending, such as purchases of cars, furniture and household appliances, as well as clothes and food, which greatly driven up the consumer spending in Q1.

Furthermore, Biden has now proposed two additional spending plans which are American Jobs Plan and American Families Plan, one focused on infrastructure and the other on families and childcare – if they are passed by the Congress, trillions more dollars will be soon infused into the economy over the next decade.

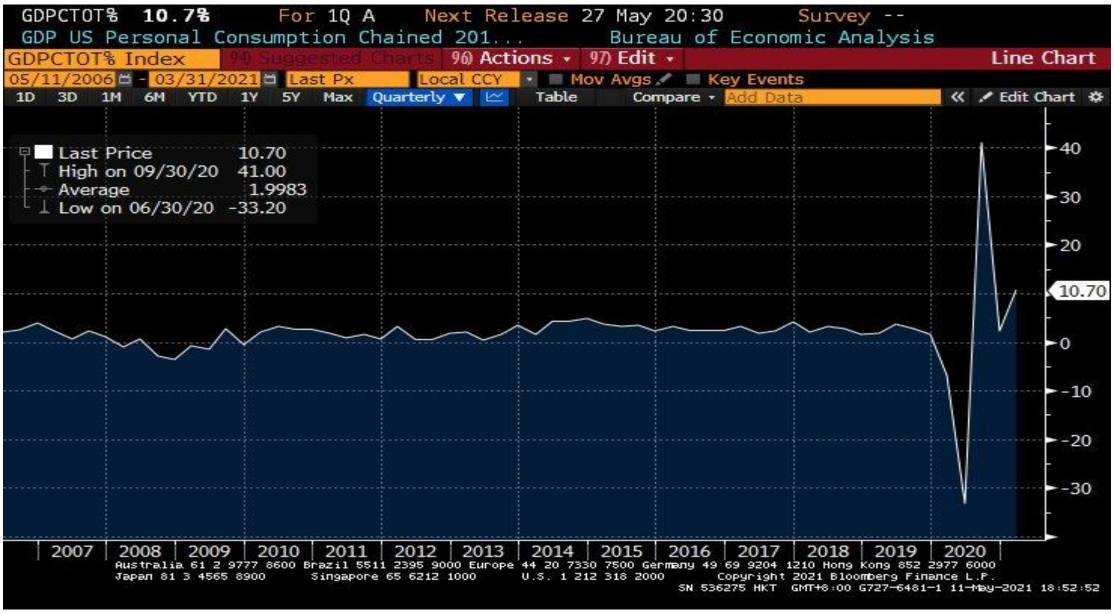
Vaccination

Widespread vaccination has remarkably fueled economic activities in Q1 2021 and helped U.S. to get out from the severe pandemic struck. The number of reported COVID-19 cases had dropped from a record of over 200k per day during December 2020 and January 2021 to about 50k per day recently. With all American adults are now eligible for vaccination against the virus, have resulted in a faster economic rebound in the U.S. compared to its global rivals. According to Bloomberg data, more than 263 million shots have administered, with at least 51% of the adult population have received one dose, and 31% of the American have been fully vaccinated. Due to an improving pandemic outlook, some previously implemented lockdown measurements and restrictions on activity are widely lifted. Thus, economic activities are gradually resumed. Consumer demand is seen broadening and driving outlays for long-downtrodden industries such as travel and leisure. On May 4, Biden has announced a target of at least 70% of 18 years or above U.S. population vaccinated with one dose by the July 4 Independence Day.

Labour market

The US labor market has continued recovering in the past months. According to the Labor Department, initial jobless claims dropped 13k to 553k during the week end of April 24. Continuing jobless claims have also declined from a record of 23.12 million in May 2020 to 3.69 million in late April 2021. However, both are still left behind from pre-pandemic level of less than 300k and less than 2 million respectively which is regarded as a healthy labor market.

The growth in consumer spending in Q1: accelerated by 10.7% in Q1, the second-fastest growth since the 1960s



Source: Bloomberg

The lagged demand

It is highly likely that the strong GDP growth in Q1 is also pushed up by the lagged demand come from the compensation for consumption and production laggard in 2020 due to COVID-19. It can be explained by two examples. First of all, the sales of U.S. cars had been greatly affected by pandemic. The number of auto sales in Q2 2020 had dropped to less than 12 million (annualized) per month which is 1/3 less than the average level from 2016 to 2019. As the impacts from the pandemic have been gradually faded, the car sales have been gradually resumed in H2 2020 and further increase substantially in Q1 2021. The car sales were 17.7 million (annualized) in Mar 2021 which was the highest sales volume since Dec 2017. It is very likely that due to the lagged demand and expected the car sales will keep on having a notably increase in 2021.

US total auto sales (annualized)

Source: Bloomberg

Another example is about the housing market. The new home construction has recorded a significant increase since Q3 2020. The number of new housing has reached 1.61 million (annualized) in average in Q1 2021 which is 15% higher than the average in 2020 and the highest since 2006. The substantial increase in housing most likely due to the low mortgage rate as the 15-year fixed rate has been dropped to historical low of 2.3% in Q1 2021 but it may also be due to the lagged demand from 2020.

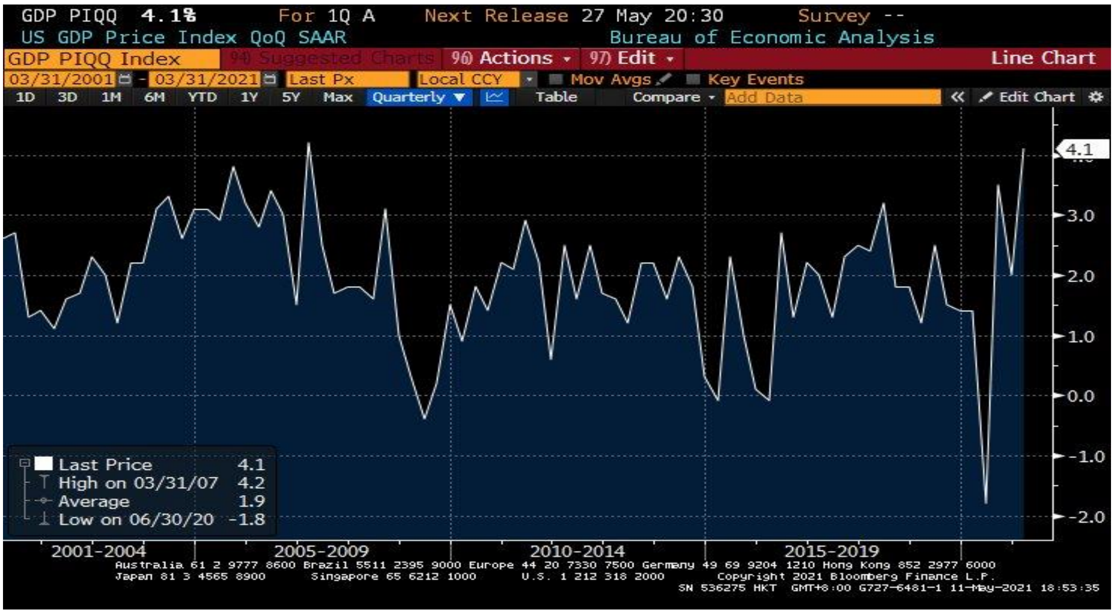
Construction of new US homes

Source: Bloomberg

Despite the strong GDP report, it did not significantly reflect on stock market. The stock market did not show any substantial increase after the GDP report. First of all, the strong Q1 GDP growth was well expected by the market and already priced in the market. According to the market forecast, it is expected the economic growth in Q1 would be as high as 6.7%. The actual growth rate is slighter lower than the market expectation.

Besides, the GDP report showed the prices increased by 4.1% quarter-on-quarter (annualized), the second highest increase in the past two decades, reflecting the inflation risk may not be as low as the Fed keeps saying to the market.

US GDP price index: the second highest increase in the past two decades



Source: Bloomberg

As a result, the prices increase in Q1 could be a wakeup call to investors that the inflationary pressure may continue to increase in the coming months. Although the US 10-year government bond yield did not exist any significant increase after the GDP report, if the inflation figures continue to heat up in the coming months, it is still highly possible that the 10-year government bond yield will rise up again and possibly exceed the previous high 1.74%. Therefore, it may likely lead to another wave of selloff in the market.

Source: Bloomberg, Yahoo Finance, WSJ, The Standard, Financial Times

general basis and is not to be relied on by the reader as advice. Asset Management Group reserves the right to make changes and corrections to its opinions expressed in this document at any time, without notice to the recipients of this document. Any unauthorized disclosure, use or dissemination, either whole or partial, of this document is prohibited and this document is not to be reproduced, copied, and made available to others. Investment involves risks. The value of any investment and the income from it can rise as well as fall as a result of different market risks, such as currency and market fluctuations. Past performance figures shown are not indicative of future performance. The recipients of this document should seek for professional advice if they are in any doubt about any of the information contained herein. This material has not been reviewed or approved by the Securities and Futures Commission.

For any comments, please send email to us at info@asset-mg.com.

Asset Management Group
Unit 02, 40/F, 118 Connaught Road West, Hong Kong
Telephone: (852) 3970 9595 Facsimile: (852) 3107 0932