



## ***Boom Time in US***

The US economy contracted by 3.5% in 2020, much less than was initially feared. The economy is expected to rebound strongly this year. The rapid rollout of highly effective vaccines has laid the foundations for a sustained recovery to take hold, with substantial fiscal stimulus and a rundown of high household savings providing a considerable boost to growth.

Economic activity picked up momentum during the opening quarter of 2021. Last week's GDP report showed the economy expanded at a 6.4% annualised rate in the quarter. The expansion was led by a 10.7% rise in consumer spending. Investment and government expenditure also rose strongly, though a sharp run down in inventories weighed on GDP.

Data for March were particularly strong as the Biden fiscal package began to take effect and activity rebounded having being badly impacted by severe weather in February. Retail sales increased by 9.7% in the month as consumer spending jumped, in part due to substantial fiscal transfers. This lifted the value of sales 17% above pre-Covid levels.

Housing starts rebounded by 19.4% in March, and were 37% higher year-on-year. Industrial production though, rose only modestly in the month and contracted by 1.9% in the first quarter. This left output still 3.4% below its pre-pandemic level, as shortages of semiconductors and severe storms disrupted supply chains and production.

The limited amount of survey data available for April suggest that growth has continued to accelerate, with both the manufacturing and services PMIs moving even higher. The manufacturing PMI printed at 60.6, its highest level since the series began in 2007, led by a sharp rise in output. Meantime, the services index jumped to 63.1 from 60.4 in March, driven by stronger customer demand and the reopening of businesses.

Consumer confidence is also rising. The University of Michigan measure of consumer sentiment increased to 86.5 from 84.9 in April, while the Conference Board index surged to 121.7 from 109.7. Meanwhile, the labour market recovery is picking up pace. Payrolls rose by 916,000 in March, with nearly two-thirds of the increase coming in the services sector. The jobless rate edged lower to 6.0% in March also. More timely weekly initial jobless claims have continued to trend downwards in April.

Nonetheless, the labour market recovery is far from complete, with payrolls still some 8.4 million below their pre-pandemic level. Indeed, the underemployment rate, a broader measure of joblessness, remained elevated at 10.7% in March. Both highlight the degree of slack that remains in the economy and the scope for a sharp rebound.



Forecasters are turning increasingly optimistic about the growth prospects for the US economy. The IMF recently revised upwards its forecast for US GDP growth in 2021 from 5.1% to 6.4%. The OECD is also now projecting growth of 6.5% for this year. The IMF and OECD are both forecasting further strong growth of 3.5-4.0% in 2022. These would be the strongest back-to-back growth rates in nearly forty years, suggesting that the US economy is on the cusp of a boom.

Longer term, President Biden's proposed infrastructure bills may provide a further boon to growth, but higher taxes could act as a headwind. For now though, the US economy looks well on its way to overcoming the Covid pandemic. Let's hope that as usual, the US is leading the way for the rest of the world.

Oliver Mangan  
Chief Economist,  
AIB

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