

US GDP UPDATE (Q1 2021) - CHEQUES PRODUCE MIRACLE

SOLID Q1 GROWTH LIKELY TO BE FOLLOWED BY EVEN STRONGER Q2

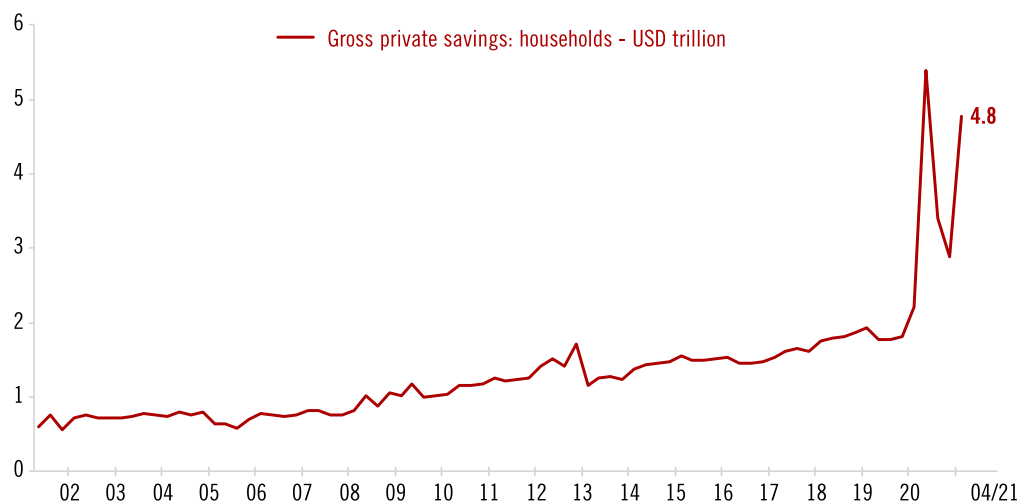
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SUMMARY

- › US GDP rose at a 6.4% quarter-on-quarter (q-o-q) seasonally-adjusted annualized rate (SAAR) in the first quarter, according to the preliminary estimate. This represents an acceleration from 4.3% in Q4-2020.
- › This solid growth was powered by a sharp rise in consumption as households were cajoled by the federal government—particularly two sets of cheques (one of USD600 per adult following December’s spending package, and another worth USD1,400 in the wake of the ‘American Rescue Plan’ voted in March).
- › Consumption rose a solid 10.7% q-o-q SAAR. Headline GDP could have been much stronger had inventories not subtracted 2.6 percentage points from headline growth.
- › The good news is that consumers have started Q2 with a big pile of savings (the household saving rate was 21.0% in Q1, up from 13.0% in Q4). We believe these savings will be spent progressively in Q2, especially as the rapid and efficient US vaccination drive pushes consumer and business confidence higher.
- › We still expect 10% q-o-q SAAR GDP growth in Q2, which should mark the high growth water mark for 2021. We continue to expect full-year GDP growth of 6.5%.

CHART 1: HIGH HOUSEHOLD SAVINGS ARE LIKELY TO BE SPENT IN STRONG PROPORTION IN Q2 2021



Source: Pictet WM - AA&MR, Factset

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IT spending is going through the roof: digitisation is accelerating

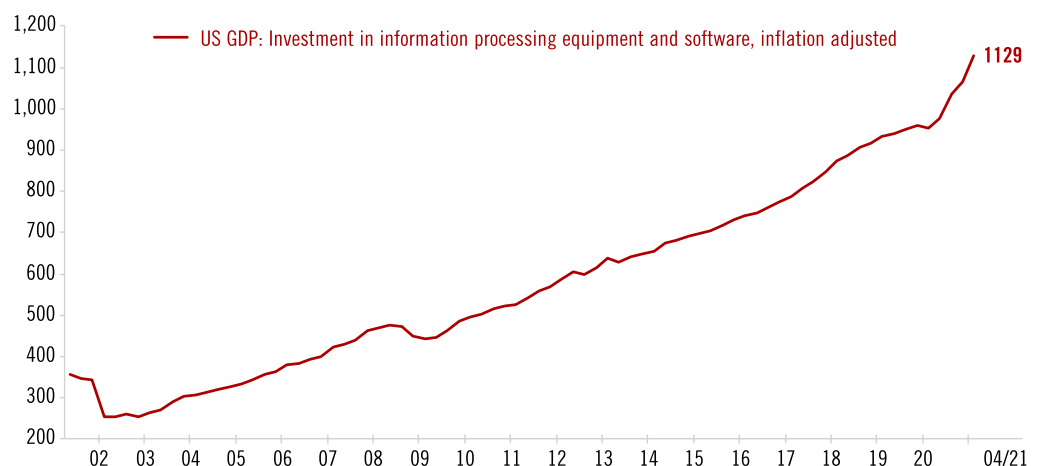
Q1 2021 GDP was a solid 6.4% q-o-q SAAR, putting the year-on-year increase at a *positive* 0.4%. The main engine was consumption, which rose 10.7% q-o-q, a sharp acceleration from 2.3% in Q4 2020. This was no great surprise given the **generosity of the federal government** in recent months, in particular the two sets of cheques sent to households recently (USD600 after the December fiscal package and USD1,400 after the 'American Rescue Plan' spearheaded by President Biden, voted in March).

The preliminary GDP report showed robust private spending on durables goods (+41.4% q-o-q SAAR), echoing the firming up of consumer confidence which is usually closely correlated with 'big-ticket' spending. Firms' investment rose 9.9% q-o-q, driven by a 16.7% rise in equipment spending. Within that category there was a sharp increase in IT-related spending, demonstrating once again how the covid-19 recession may have **accelerated digitisation of the economy** (see *Chart 2*).

By contrast, inventories subtracted 2.6 percentage points from growth. This is a rather unusual phenomenon at this stage of a recovery, but underlines how sudden and quick the recovery has been. **US businesses seem to be struggling to order enough inputs** and are having to draw considerably on their existing stocks (supply-chain issues are visible globally and can be seen in the sharp rise in input costs across the board).

The good news is that US consumers are far from having spent all their savings (including all the government transfers). The likelihood that consumers will spend more of this stack of savings in Q2 is echoed by the sharp improvement in consumer confidence. The savings rate was 21.0% in Q1, up from 13.0% (in concrete terms, household savings rose from USD2,247 bn to 4,116 bn in Q2).

CHART 2: IT SPENDING IS TAKING OFF, SUGGESTING DIGITISATION OF THE ECONOMY IS ACCELERATING



Source: PWM - AA&MR, BEA, Factset

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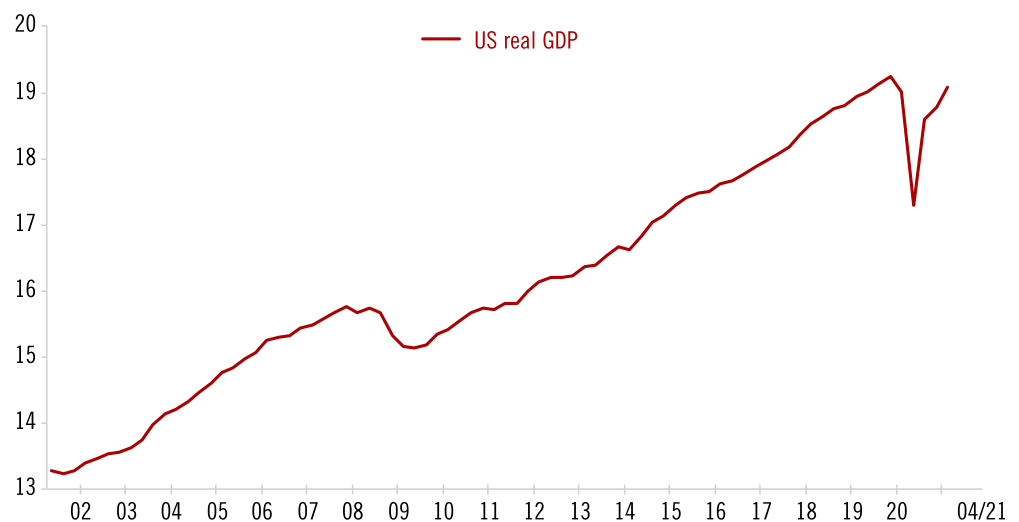
SOLID Q1 GROWTH LIKELY TO BE FOLLOWED BY EVEN STRONGER Q2

Our **US economic forecasts are unchanged**. We continue to see a super-solid second quarter, with 10% q-o-q GDP growth as US consumers jump the gun on the 'official' deadline of 4 July (Independence Day) for full economic re-opening to ramp up the spending. We see especially solid spending on the services most affected by the pandemic, like travel, tourism and restaurants. High vaccination rates are at the base of this forecast. Already, 54.5% of the adult population has received at least a first dose of a vaccine. **Our full-year 2021 growth US GDP forecast remains at 6.5%.**

This forecast means that US GDP is likely to exceed its pre-covid19 peak in Q2. This rapid return to pre-crisis level is testimony to the **intense policy support provided in recent months**, including the USD1.9 tn 'American Rescue Plan' led by president Biden in March.

The Biden cabinet has put forward additional spending plans to keep growth running beyond this year. Even though more spending packages could be in the offing later this year, we believe they will provide less 'bang for the buck' than the American Rescue Plan, which included cheques to households and stepped-up unemployment benefits. The rises in taxation being contemplated are a source of risk on business confidence, although our main scenario for now is continued growth next year, albeit at a lower pace of around 3%. Growth of this level would bring the US economy **back to cruising speed** after its rapid recovery this year.

CHART 3: US GDP IS LIKELY TO RISE ABOVE THE PRE-PANDEMIC LEVEL IN THE SECOND QUARTER

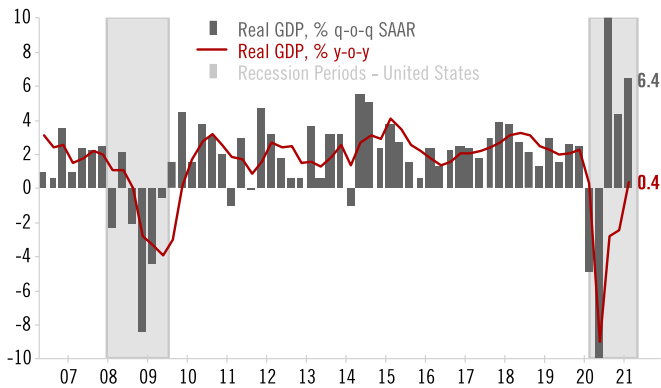


Source: PWM - AA&MR, BEA, Factset

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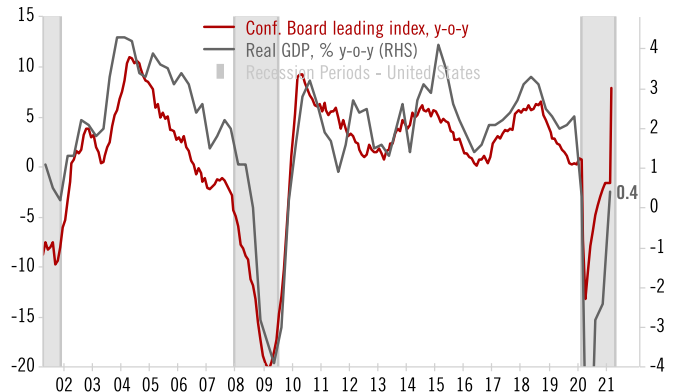
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US GDP GROWTH, % Q-O-Q AND Y-O-Y



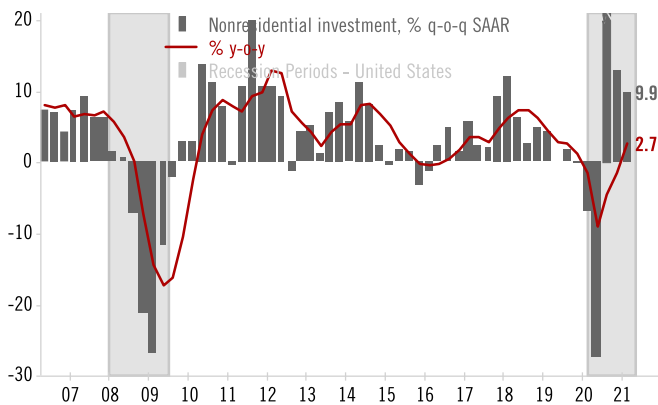
Source: PWM - AA&MR, Factset

CONFERENCE BOARD LEADING INDEX VS. US GDP GROWTH, % Y-O-Y



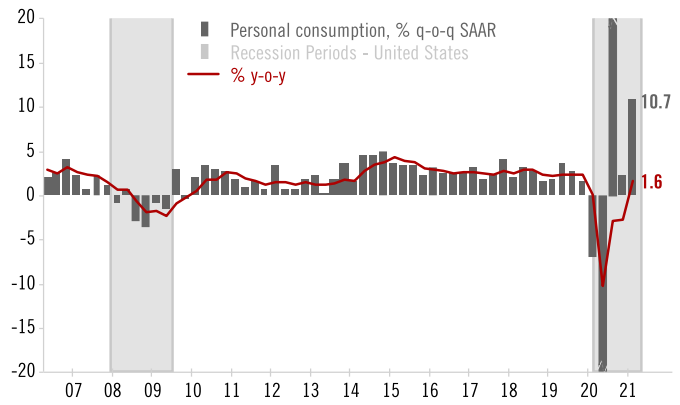
Source: PWM - AA&MR, Factset

NON-RESIDENTIAL INVESTMENT GROWTH, % Q-O-Q AND Y-O-Y



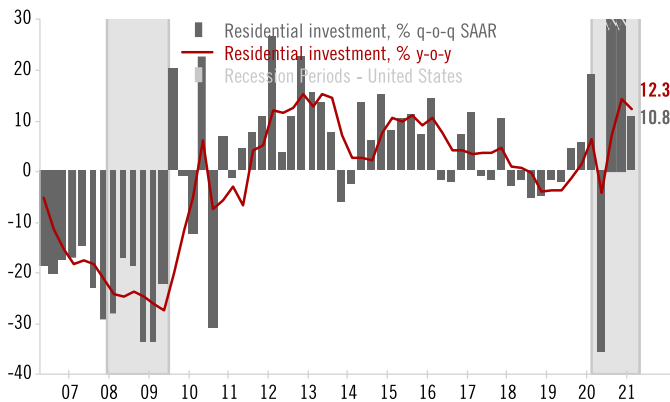
Source: PWM - AA&MR, Factset

CONSUMPTION GROWTH, % Q-O-Q AND Y-O-Y



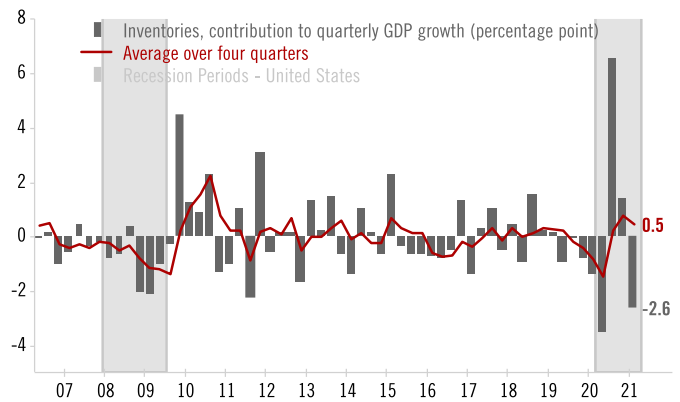
Source: PWM - AA&MR, Factset

RESIDENTIAL INVESTMENT (HOUSING), % Q-O-Q AND Y-O-Y



Source: PWM - AA&MR, Factset

CONTRIBUTION FROM INVENTORIES, PERCENTAGE POINT



Source: PWM - AA&MR, Factset

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