

US Economy

4Q20 recovery slowed; COVID-19 could continue to drag consumption in 1Q21

The U.S. economy expanded 4.0% in 4Q20, a natural moderation from 3Q's 33.4% annualized surge. The advance in 4Q20 reflected continued yet slowed economic recovery, as a result of ongoing COVID-19 resurgence and new containment measures. For the full year, GDP contracted 3.5% YoY and current-dollar GDP value was US\$ 20.93tn. 4Q GDP value remained below pre-pandemic levels.

- Personal consumption expenditures decelerated**, growing at only 2.5% annualized rate in 4Q20, which missed market expectation. PCE on durable goods recorded flat QoQ growth while PCE on nondurable goods and services decreased 0.7% and increased +4.0% in 4Q20, all decelerating sharply from record rate in the previous quarter. Breaking down PCE on services, we find the recovery of recreation, transportation and food & recreation services stalled again, attaining 60%-80% of pre-pandemic levels in 4Q20. At more frequent time intervals, retail sales dropped for three consecutive months, posting -0.1%/-1.4%/-0.7% seasonally adjusted MoM change in Oct/Nov/Dec 2020 amid resurging COVID-19 infections, exhaustion of previous government support, and worsening job market situation (initial jobless claims have been on the rise since Dec 2020).
- Mixed performance of other components.** 1) **Residential investment continued to stand out**, up 33.5% QoQ at annualized rate and contributing 1.29ppt to 4Q GDP growth. Existing home sales stayed strong. 2) Nonresidential investment also maintained expanding pace at 13.8% annualized QoQ growth driven mostly by equipment spending. 3) Trade dragged GDP in 4Q20 by 1.52ppt because of a strong rebound in imports which outpaced export recovery. 4) Government spending declined modestly mainly in terms of federal nondefense investment and consumption expenditures at state and local governments.
- COVID-19 likely to weigh on economic performance in 1Q21.** According to Google mobility tracker, retail & recreation activities have been trending down since the end of last year with the resurgence of COVID-19 and stricter containment measures. We believe COVID-19 may continue to drag service consumption. Momentum on durable goods consumption may also slow down. Broad-based declines, however, are not likely because the economy is not abruptly locked down as it was earlier last year. Google workplace mobility tracker is now staying largely stable. **We expect to see more boost in 2Q21** resulting from speedier rollout of COVID vaccines, accommodative policy monetary environment and new fiscal stimulus plan.

GDP and related measures

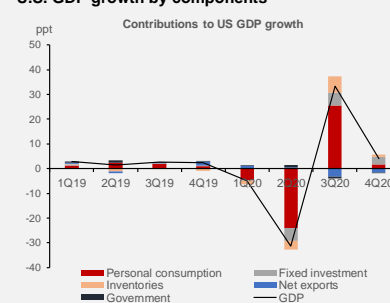
Indicators (s.a. at annual rates, %)	2019	2020	1Q20	2Q20	3Q20	4Q20
GDP	2.2	-3.5	-5.0	-31.4	33.4	4.0
Personal consumption expenditures	2.4	-3.9	-6.9	-33.2	41.0	2.5
Gross private investment	1.7	-5.3	-9.0	-46.6	86.3	25.3
Fixed investment	1.9	-1.8	-1.4	-29.2	31.3	18.4
Exports	-0.1	-13	-9.5	-64.4	59.6	22.0
Imports	1.1	-9.3	-15.0	-54.1	93.1	29.5
Government spending	2.3	1.1	1.3	2.5	-4.8	-1.2

Source: BEA, CMBIS

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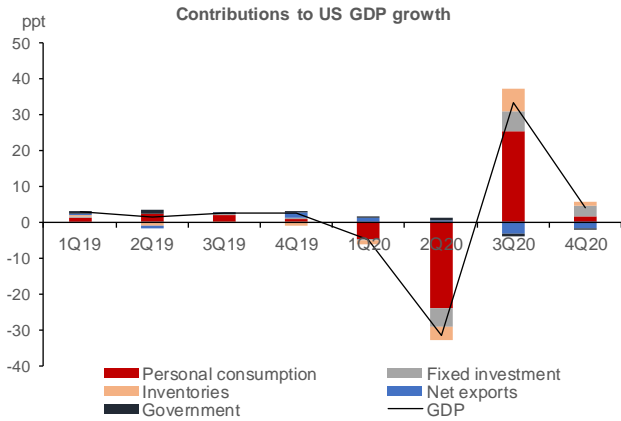
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U.S. GDP growth by components



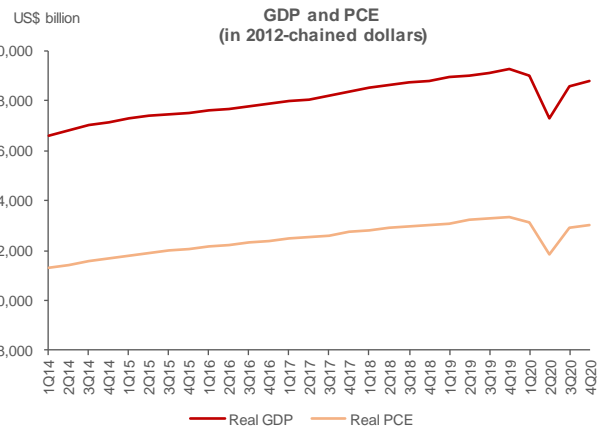
Source: BEA, CMBIS

Figure 1: 4Q20 GDP reflected advances in personal consumption and fixed investment, offsetting by decreases in net exports government spending



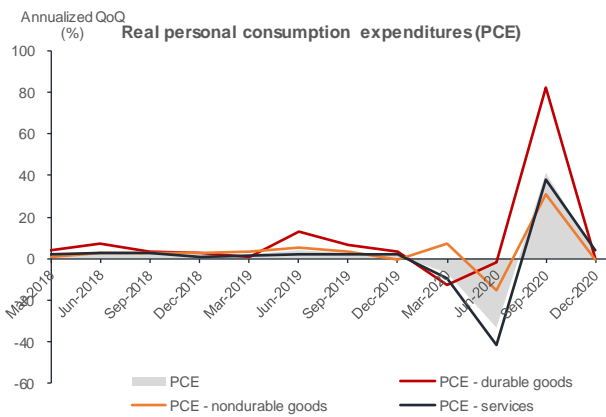
Source: BEA, CMBIS

Figure 2: Overall 4Q20 GDP and PCE remained below pre-pandemic levels since 4Q19 (in 2012-chained dollars)



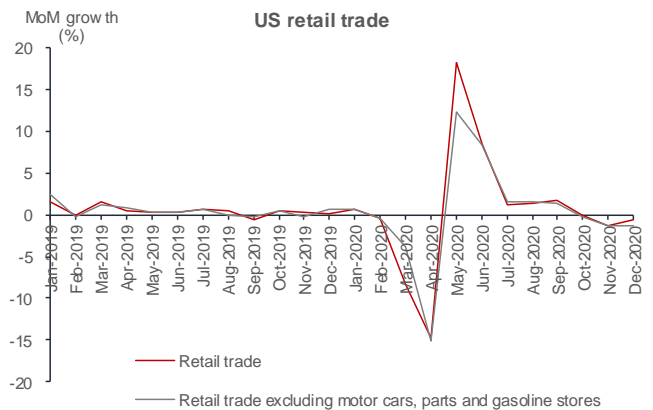
Source: FRED, CMBIS

Figure 3: Real PCE increased 2.5% in 4Q20 (durables goods +0.0%, nondurable goods -0.7%, services +4.0%)



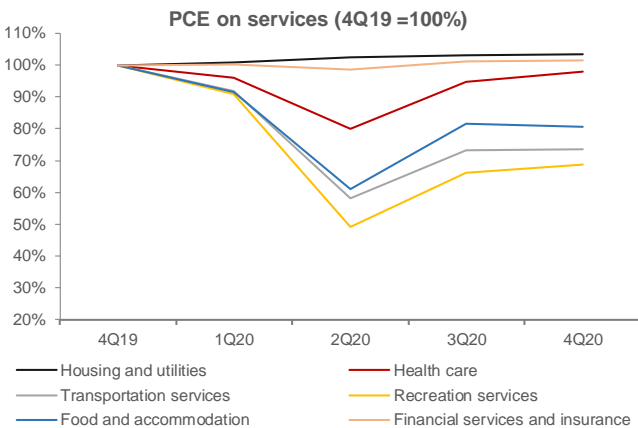
Source: FRED, CMBIS

Figure 4: In Dec, retail trade declined 0.7% and 1.4% excluding motor cars, parts and gasoline stores, representing the third consecutive monthly decline



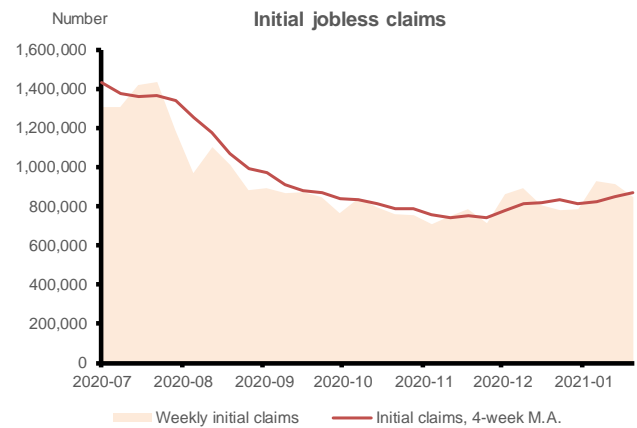
Source: NBS, Wind, CMBIS

Figure 5: PCE on recreation, transportation and food & accommodation services stalled in 4Q20



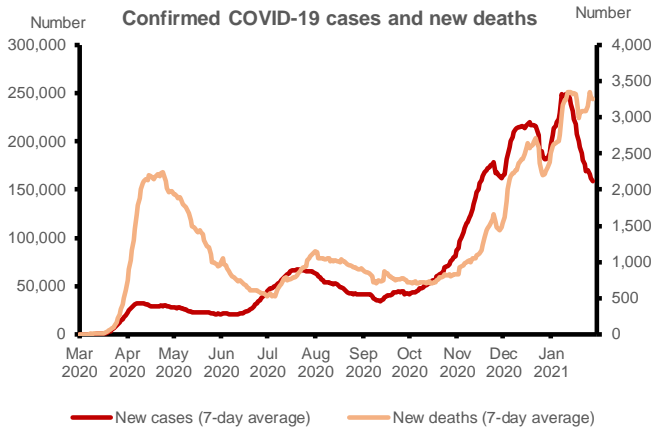
Source: FRED, BEA, CMBIS

Figure 6: Initial jobless claims on the rise since last Dec



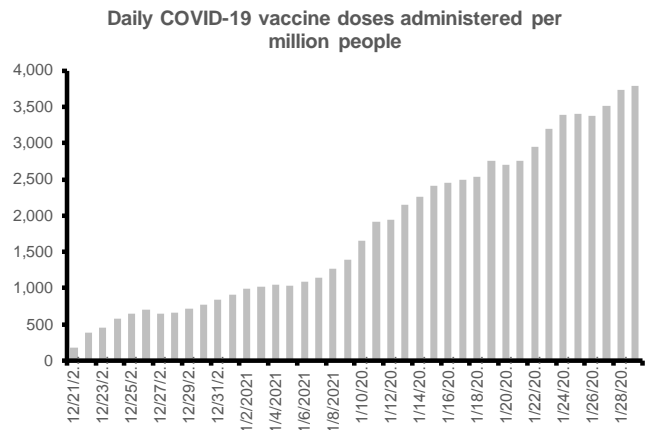
Source: FRED, CMBIS

Figure 7: Confirmed COVID-19 cases vs. new deaths in the U.S.



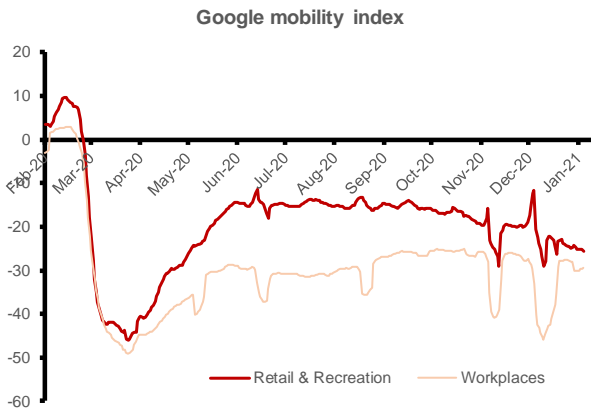
Source: OWID, CMBIS

Figure 8: Expansion in vaccine rollout in the U.S.



Source: OWID, CMBIS

Figure 9: Google mobility tracker indicates declining retail & recreation activities although workplace attendance remained largely stable



Source: Google Mobility Report, CMBIS estimates
*Note: 7-day moving average series were plotted. Recent dips in both series were primarily driven by Thanksgiving and Christmas holidays

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