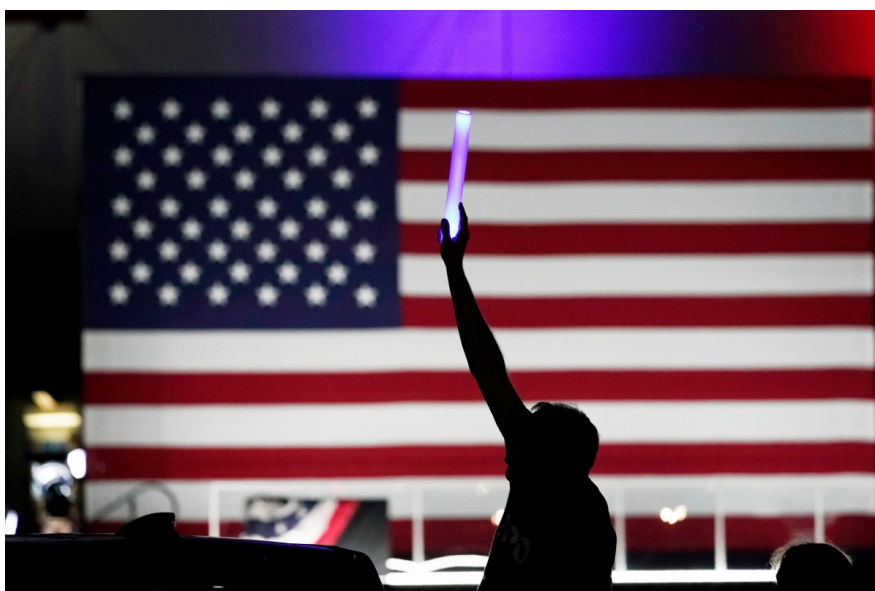


US: The bounce-back gains momentum

US GDP grew an annualised 6.4% in the first quarter with the re-opening process and ongoing stimulus set to result in double-digit growth in the second quarter. This leads us to the remarkable conclusion that the level of US GDP will be higher at the end of the year than would have been the case had the pandemic not occurred



Source: Shutterstock

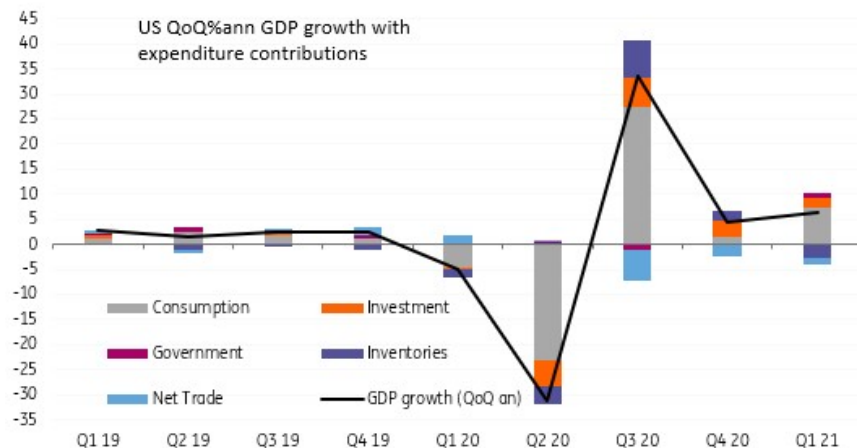
6.4% US 1Q21 annualised GDP growth

Growth accelerates thanks to stimulus fueled consumers

US 1Q GDP growth came in at 6.4% annualized, a little weaker than we had been looking for (7.4%) and just a touch softer than the 6.7% consensus. Consumer spending rose 10.7%, which was actually above what we had been factoring in, while non-residential fixed investment rose 9.9% and residential investment posted a 10.8% increase with government spending up 6.3%. However, a run down in inventories subtracted a hefty 2.6 percentage points from GDP growth and net

exports subtracted 0.9 percentage points as strong consumer demand sucked in imports while exports fell due to economic weakness overseas.

Contributions to GDP growth



Source: Macrobond, ING

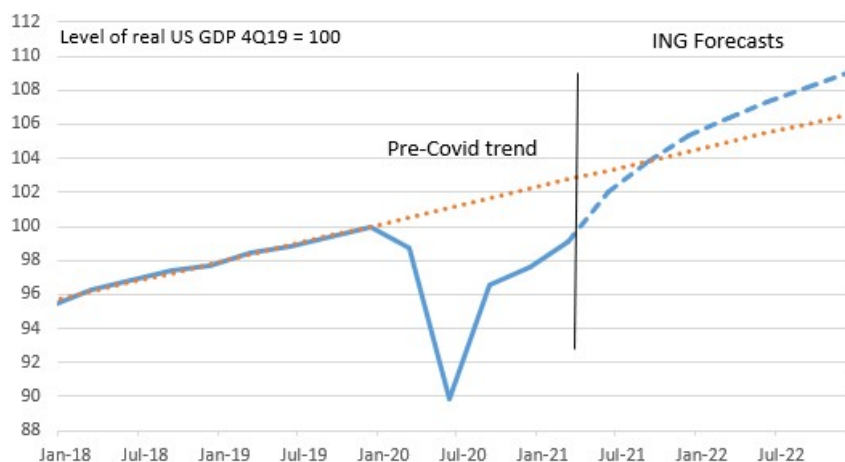
The outlook keeps getting better

Looking towards 2Q GDP, it is clear that consumer spending in March was very strong, supported by the latest \$1,400 stimulus check and this provides a strong base for growth in the current quarter. Encouragingly, restaurant booking data, security check numbers at airports and daily debit and credit card transaction numbers suggest that momentum has carried through into April. With 142 million Americans also now having at least one dose of the Covid vaccine and the economy opening up more and more each day we are penciling in a double-digit GDP growth figure of around 12.5% annualized.

The US economy has already experienced \$5tn of stimulus through measures enacted by Presidents Trump and Biden and is set to be boosted by an additional \$4tn of spending, partially offset by some tax rises, from Joe Biden's latest infrastructure and social spending plans. That is equivalent to around 40% of GDP all in and with household balance sheets in great shape and the US economy opening up more and more we should be expecting very strong growth for several quarters to come.

GDP to move above trend

In fact we strongly suspect that the level of real GDP in the US will be higher in 4Q 2021 than it would have been of there had been no pandemic and the US economy had instead continued growing at its 2014-19 trend – see chart below.



Source: Macrobond, ING

Inflation pressures are mounting and the Fed will respond

By mid-2022 we think the level of output will be 2 percentage points above where it would have been absent the pandemic. With scarring from the pandemic hitting the US' supply capacity, this underlines our sense that inflation pressures could be more sustained than the Fed is publicly admitting. With strong growth set to boost job opportunities through the summer we expect to see a substantial shift in Fed language at the August Jackson Hole Conference that would pave the way for a December QE taper announcement. We continue to expect a rate hike in 1H23 versus the Fed's current guidance that nothing will happen before 2024.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.