U.S. economy shrinks 3.5 percent in 2020, worst decline since 1946

New York, January 29 (RHC)-- The United States economy continued to rebound in the final three months of 2020, but the weaker than expected boost was not enough to offset a contraction in the first quarter and an historic plunge in the second, leaving the world's largest economy in the red for the year.

U.S. gross domestic product (GDP) – which measures the total output of goods and services- grew 4 percent on an annualised basis in the final three months of 2020, the US Commerce Department said on Thursday. The figure was lower than many analysts were expecting and reflects the drag of surging COVID-19 infections and business sapping restrictions that rampaged through the nation as 2020 drew to a close.

In the third quarter ending September, economic growth surged 33.4 percent on an annualised basis. The increases in third and fourth quarter GDP were not enough to claw back contractions in the first and second quarters of 2020 – when the economy shrank 5 percent and 31.4 percent respectively.

On an annual level, the US economy contracted 3.5 percent in 2020 – the worst yearly decline since 1946, and the first yearly decline since 2009, when the country was reeling from the Great Recession. Consumer spending, which accounts for some two-thirds of US economic growth, grew 2.5 percent in the fourth quarter of 2020, compared to a 41 percent surge in the third quarter.

Myriad indicators have signaled a sharp deceleration in economic activity in the closing months of 2020. The economy shed 140,000 jobs in December, slamming the brakes on seven straight months of jobs creation. The unemployment rate last month stood at 6.7 percent – nearly double the rate just prior to the pandemic.

The leisure and hospitality sector, which includes restaurants and bars, was especially hard hit, losing nearly half a million jobs in December.

On Wednesday, Federal Reserve Chairman Jerome Powell highlighted the labor market carnage and the disproportionate fallout on low wage and minority workers as he explicitly linked progress on vaccination drives with returning the economy to full health. “There’s nothing more important to the economy than people getting vaccinated,” Powell said, adding that he has received one COVID-19 jab and expects to get a second one soon.

Many economists are expecting the economy to pick up later this year in anticipation that vaccine drives will accelerate a return to business as usual and unleash months of pent-up demand for goods and services that have been derailed by the pandemic.

U.S. President Joe Biden has proposed a new, massive $1.9 trillion stimulus package to accelerate the nationwide vaccination initiatives, and give more financial help to struggling households, small businesses and communities that have borne the brunt of the pandemic’s economic fallout.

The measures include giving an additional $1,400 direct cash transfer to qualifying Americans – in addition to $600 stimulus cheques included in December’s $900 billion round of virus relief aid – and boosting the federal weekly top-up to state unemployment benefits from $300 to $400.

Democrats now control both houses of Congress – which ultimately controls the nation’s tax and spending policies – but many Wall Street analysts expect horse-trading with Republicans to chip away at the size and scope of Biden’s proposed stimulus.

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