News Release

Comment on Q1 GDP

US GDP contracts by 4.8 percent in Q1, but the real damage won’t be seen until Q2

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US Real Gross Domestic Product contracted by -4.8 percent during the first quarter of 2020. This quarterly annualized growth rate was significantly lower than the +2.1 percent growth rate reported in Q4 2019 due to the impact of COVID-19 on the US economy. It is also important to note that due to the large shock the US economy is undergoing, it is likely that these preliminary data will be heavily revised over the coming months.

According to the Bureau of Economic Analysis, personal consumption expenditures dropped by -7.6 percent and non-residential investment fell by -8.6 percent in Q1, meaning that both US consumers and businesses pulled back spending. The drop seen in consumption was broader than expected – going beyond categories like food service & accommodations. Healthcare services, for instance, saw a very large contraction. Additionally, personal incomes continued to grow in Q1 but personal savings jumped to 9.6 percent from 7.6 percent in the previous quarter.

While this contraction is not unexpected, it should be noted that social distancing policies only began to be widely implemented in the United States in mid-March. Because of this, the pandemic’s impact on the US economy was limited to the very end of Q1 and is impacting Q2 much more severely. We therefore expect a much deeper contraction of between -38.8 and -43.7 percent (annualized) in Q2. The degree of the contraction will depend on the path the virus takes through June and the degree to which the economy is “reopened.”

The growth forecasts for Q3 and Q4 are also highly ambiguous, and will depend on new infection rates, treatment options, testing availability and government policies. The Conference Board presently has three distinct scenarios for US economic growth in 2020 that range from a “U” shaped fall recovery scenario (yielding annual GDP growth of -6.5 percent) to a more daunting scenario wherein COVID-19 infections resurge in Q4 (yielding annual GDP growth of -7.4 percent).

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