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Democracy Dies in Darkness

2020 was the worst year for economic growth since World War II

New federal data offers a comprehensive snapshot of a year marred by staggering job losses, waves of small-business closures and mounting inequality

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The U.S. economy shrank by 3.5 percent in 2020 as the coronavirus pandemic ravaged factories, businesses and households, pushing U.S. economic growth to a low not seen since the United States wound down wartime spending in 1946.

Overall, the economy was surprisingly resilient in the second half of the year, given the falloff at the start of the public health crisis, according to data released Thursday from the Bureau of Economic Analysis. Yet, the 1 percent growth in the fourth quarter signaled a faltering recovery and a long road ahead, with 9.8 million jobs still missing and 23.8 million adults struggling to feed their families.

“2020 has no precedent in modern economic history,” said David Wilcox, senior fellow at the Peterson Institute for International Economics and a former director of the domestic economics division at the Federal Reserve. “The influenza of 1918 and 1919 predates our modern system of economic statistics, and since World War II, there’s never been a contraction that even remotely approached the severity and the breadth of the initial collapse in 2020.”

It’s the first time the economy has contracted for the year since 2009, when gross domestic product shrank by 2.5 percent during the depths of the Great Recession. The next-worst plunge was 1946, when the economy shrank by 11.6 percent as the nation demobilized from its wartime footing.

Consumer spending in the final three months of the year slowed down in all 15 categories tracked by the BEA, as the sectors that powered third-quarter growth faltered. Americans spent less on restaurants and hotels, a sector that had been a surprising third-quarter bright spot, and the growth of spending on motor vehicles and health care slowed after a steep third-quarter acceleration.

“There has been a broad recovery but, economically speaking, we’re not out of the woods yet,” said Ben Herzon, executive director at IHS Markit.

Senate Majority Leader Charles E. Schumer (D-N.Y.) seized on the new GDP figures in a speech on the Senate floor, arguing that they make the case for passing a big new relief bill.

“Given these economic numbers, the need to act big and bold is urgent,” Schumer said. “Given the fact that the GDP sunk by 3.5 percent last year, we need recovery and rescue quickly.”

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President Biden has proposed a $1.9 trillion economic relief package with money for individual Americans and cities and states, as well as coronavirus testing and vaccines, among other provisions.

Schumer reiterated Thursday that he intends to take steps to move the package forward next week, with or without GOP support. Many Republicans say the proposal is too costly and unnecessary on top of about $4 trillion in relief that Congress already passed, including $900 billion in December.

Even as the economy shed jobs like never before in 2020, personal income grew significantly, BEA data shows, largely because of $1,200 stimulus checks and enhanced unemployment benefits provided by the Cares Act. Disposable personal income grew faster for lower-income households than it did for the average household, according to an analysis published Thursday by Jason Furman, a senior fellow at the Peterson Institute and a former top economist in the Obama administration, and Wilson Powell III of the Harvard Kennedy School.

However, those gains were front-loaded and have begun to erode. Federal stimulus drove personal income to record highs in the late spring, but the levels fell off significantly in the second half of the year as relief programs under the Cares Act wound down or expired. Congress also approved a $900 billion stimulus package last month, which sent Americans new $600 stimulus checks and extended unemployment benefits by as much as $300 a week through mid-March.

“The package enacted at the end of December was completely welcome, but we’re clearly seeing that it took some time to roll out and get that aid to folks,” said Wendy Edelberg, director of the Hamilton Project at the Brookings Institution and former chief economist at the Congressional Budget Office.

This is the last GDP report from President Donald Trump’s tenure. Until the pandemic, Trump was on track for an economic record that put him near the middle of the pack among recent presidents. But the coronavirus crisis ensured that Trump oversaw the slowest economic growth of any president in the period since World War II.

Economic chaos reigned in 2020. In the second quarter, gross domestic product contracted at the fastest quarterly rate ever for the United States, as the pandemic walloped workers and businesses and kept millions from leaving their homes. Then, in the third quarter, GDP soared at a record pace as parts of the economy reopened and businesses brought workers back onto their payrolls.

The nascent economic recovery was propelled by a rebound of sales of automobiles and household goods such as furniture, and in renovations and supplies for home offices. Consumer spending — which accounts for more than two-thirds of U.S. economic activity — used to be driven by an ever-growing demand for services, including leisure and hospitality, and restaurants and bars.

But as the pandemic warped tried-and-true shopping habits, economists watched consumers move their spending from services to goods. Purchases of computers, home office equipment and fire pits quickly overtook those of hotel rooms and movie tickets.

In fact, 2020 was the best year ever for Bedford Fields Home & Garden Center in the forested hills of Bedford, a suburb of Manchester, N.H.

When the pandemic hit, “literally everybody became gardeners,” office manager Tracey Auger said. The GDP category that includes nurseries and garden-supply stores was one of the fastest-growing in 2020.

“So many people were home, and we were deemed essential and one of the few places people could go to shop,” Auger said. “They needed somewhere to go, a project to do.”

Auger, who has worked at Bedford Fields for nine years, said the shop has based its 2021 orders on the assumption that this year will be somewhere between a normal year, like 2019, and the housebound plant madness of 2020. Bedford Fields has doubled its seed order for 2021 and has secured a full order of plants; after months of shortages, growers have finally caught up to surging demand.

For every business that has thrived in the era of social distancing, though, dozens of others have continued to suffer as customers stay home and governments restrict activity at high-contact businesses such as bars, restaurants and event centers.

At a news conference Wednesday, Powell said the pace of the recovery in economic activity and employment has moderated in recent months, with service-sector workers — mainly women and people of color — struggling to regain a foothold in the workforce.

“That is really the main thing about the economy, is getting the pandemic under control, getting everyone vaccinated, getting people wearing masks and all that,” Powell said. “That’s the single most important economic growth policy that we can have.”

The businesses that have been hit hardest disproportionately employ women, people of color and workers without college educations. Americans in those groups are suffering. Economists call it a K-shaped recovery: The top end of the economy continues to improve, even as lower earners fall further behind.

Constance Hunter, chief economist at KPMG, pointed to different slices of the economy that have their own versions of the K-shaped recovery. Among corporations, tech companies such as Zoom and Netflix are soaring. Airlines, less so.

For workers, Hunter said that among Americans who can work from home, the unemployment rate is 3.9 percent. The rate is 8.5 percent for people who have to report to a job site.

“In general, the GDP number is informative about the economy,” Hunter said. But “because of this corporate K, a household K, a geographic K, we have to dig under the hood in a different way.”

In the fourth quarter of 2020, spending from state and local governments fell 2.5 percent from the same quarter the previous year, adjusted for inflation. That’s the sharpest decrease since mid-2012, and mirrored the toll from the 2008-2009 financial crisis.

In the years after the Great Recession, economists pointed to the slow return of public-sector jobs as a drag on the broader recovery. The coronavirus crisis has once again spurred many left-leaning economists and policymakers to push for continued aid to state and local governments.

“I just want us to learn the lessons from the 2008-2009 Great Recession,” said Lisa Cook, an economist at Michigan State University. “With greater funding for state and local governments, [a relief package] will stem the adverse affects of what we’re seeing with respect to the virus.”

Cristal Farrington, 48, was laid off in May after more than two decades of climbing the corporate ladder at New York City firms that buy and distribute specialty foods and restaurant equipment.

Farrington is looking for whatever work she can get but said she was not optimistic that business would pick up in 2021, because the timelines for vaccine rollout and reopening remain fuzzy. And even if things turn around, it will be years before Black women like her are welcomed back into the workforce, she said.

“People of color, we’ve always been on the edge, teetering,” Farrington said. “Because we always know we’re going to be the first ones let go and the last ones hired.”

Economists surveyed by the Wall Street Journal predict a strong rebound in 2021, with the economy growing by 4.3 percent. That would be the best year since the late 1990s, as high earners unleash the billions they have saved during the pandemic.

One bright spot in 2020 is that the personal saving rate hit the highest on record, and some businesses are betting that — combined with a vaccine rollout, the December stimulus and any future Biden administration stimulus — all that saving will power a swift rebound.

The online review site Yelp this week reported that more businesses reopened in December than in any month since June. It also augurs well for this year that, in December, interest in wedding planning soared 22 percent above its 2019 level — a sign of hope for the battered live-events industry.