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Democracy Dies in Darkness

## ECONOMY

# In hopeful moment, storm clouds over Biden economy appear to lift

The U.S. economy grew by annual rate of 2.4 percent in second quarter, as both recession and inflation fears abate

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The storm clouds that threatened the economy under President Biden are lifting with surprising speed, as fears of an imminent recession abate just as inflation cools.

On Thursday, the government reported that the economy grew last quarter by 2.4 percent on an annualized basis — a faster-than-expected clip that bolstered confidence the United States is not about to slide into recession.

The report follows a steep drop in inflation, from 9 percent last year to 3 percent in the most recent report, and a measurable brightening in consumer attitudes. Positive news is emerging across the data: Worker pay is rising faster than prices, consumer spending remains robust, and new federal investments in infrastructure and clean energy are bolstering the overall economy. The Biden administration [resolved a standoff](#) over the debt ceiling with House Republicans, and its emergency interventions helped calm a [crisis among regional banks](#). A deal this week between UPS and its union [removed](#) one more potential challenge to the economy.

This string of positive developments could reshape a political landscape that for more than two years has been defined by Republican accusations that Biden is mismanaging the economy. Although quick to emphasize the progress is fragile, Democratic policymakers are newly eager to boast of the strength in what has been perhaps Biden's greatest political liability.

"This progress wasn't inevitable or accidental — it is Bidenomics in action," Biden said in a statement touting the economic growth numbers. "My economic plan is working — and we're just getting started."

Released Thursday by the Bureau of Economic Analysis, the new gross domestic product figures showed the economy expanded for the fourth straight quarter in a row, casting doubt on predictions of a recession this year.

While some economists had predicted a slowdown in the quarter between April and June, growth accelerated instead. Federal Reserve staffers, who a few months ago had worried about a “mild” recession, are no longer forecasting one. Major Wall Street banks are saying it looks increasingly likely that the economy can stave off a recession, at least until next year. The number of Americans applying for unemployment benefits dropped to the lowest level in five months for the week ending July 22.

“It seems the administration has been validated in that inflation is coming down while the economy is doing well,” said Eswar Prasad, an economist at Cornell University. “This looks like it’s going to be a big political win.”

To be sure, major risks remain. Many economists say the economy is still running too hot. That could mean the central bank has to keep borrowing costs elevated for longer, which could trigger a downturn and lead to higher unemployment. The risk of a partial or complete federal government shutdown this fall seems to be rising, which could complicate the notion that all is moving in the right direction in Washington.

The Federal Reserve has already raised interest rates to their highest level in 22 years, and it could take time for those hikes to filter through to the broader economy. There are growing signs that the moves are beginning to have an impact. The housing market has slowed sharply in the past year, manufacturing is down, and employers are posting fewer jobs. Households, which until recently had been splurging on travel and big-ticket items, are also becoming more cautious with their money. Some signs of deprivation for the poor are also rising: Food banks and advocates are reporting substantial increases in the number of hungry Americans, while many cities have reported increases in their homeless populations.

Consumer spending jumped by 4.2 percent at the beginning of the year but has moderated since then, rising by 1.6 percent in the most recent quarter. Gas prices also ticked up this week.

“The economy has remarkably avoided a recession,” said Diane Swonk, chief economist at KPMG. “That’s put the Fed in a nice position; it’s emboldened them to really go all in against inflation. But the question is: How long can this strength persist? Are there still effects from higher interest rates that we haven’t seen yet?”

But any emerging trepidation among consumers is largely being offset by a burst of new spending by the government and businesses. For example, the Biden administration’s robust investment in infrastructure projects such as new bridges and roads, airport improvements, and manufacturing plants for electric vehicles appears to be spurring widespread private investments and boosting the overall economy far earlier than many had predicted.

Business investments in infrastructure, including manufacturing plants and transportation equipment, rose by 56 percent in the most recent quarter, accounting for more than a third of overall economic growth.

Morgan Stanley last week made a “sizable upward revision” to its GDP expectations for the year — raising its annual forecast threefold, from 0.4 percent to 1.3 percent — citing ongoing federal investments.

“The economy in the first half of the year is growing much stronger than we had anticipated,” Ellen Zentner, chief U.S. economist for Morgan Stanley, wrote in a research note last week. “The Infrastructure Investment and Jobs Act ... is driving a boom in large-scale infrastructure.”

The Biden administration has so far allocated \$299 billion in infrastructure funding for projects across the United States. Private companies have announced another \$503 billion in related investments, [White House data](#) shows. More money from Washington is on the way.

In Beaverton, Ore., Tina Adams’s engineering firm expects a 25 percent increase in revenue this year, which she attributes to a flurry of new government-backed infrastructure projects. She has added three new engineers to her workforce of 10 to keep up, and she says the boom in federal work has more than made up for stalling local projects.

“I can say with a straight face that of 25 contracts and projects we have, almost all of those — 23 of them — are federally funded in some way,” said Adams, founder of Casso Consulting. “These are short-term jobs, but they have very long-lasting effects. We are looking down the barrel of a whole lot more work opportunities.”

Adams’s firm, which specializes in public works designs, is among the first to benefit from the burst of federal funding. She and her staff of engineers are already laying out drainage routes and utility relocations for a number of large-scale projects: replacing bridges, widening highways, creating bike lanes and adding wheelchair ramps to sidewalks.

“It’s already had a direct impact and created an environment where we could hire more people and work on more projects,” Adams said. “But this is just the first step. There’s a whole lot more coming down the pipeline.”

Some experts are skeptical of the degree to which these investments are boosting the overall economy.

Jason Furman, a former Obama administration economist, said that “manufacturing structures” — the part of the economy booming in large part because of Biden’s policies — only represent about 2 percent of total investment, and a much smaller part of the nation’s overall economy.

Furman had predicted that lowering inflation to 2 percent — the Federal Reserve’s target number — would require an unemployment rate that rose to 6.5 percent. With inflation still significantly above that number by [the Fed’s preferred metric](#), he said, that prediction has not yet been proved incorrect.

“I’m not saying I’m right or wrong, but literally nothing in the data would cause you to revise your view,” Furman said. “We are in a better place than we were a year ago, but that forecast has not been disproven.”

And yet for now at least, the public appears to be happier about the direction of the economy. Two widely watched indicators of how consumers are feeling have risen substantially this summer. Democratic pollster Celinda Lake, who worked on Biden’s 2020 campaign, said she is beginning to see a turn in her focus groups as well, after years of pessimism fueled by inflation.

"People are still very tentative, but there are definitely some openings. What people have been saying is, 'We really took it on the chin, but it seems to be leveling off and maybe we're not going to a recession,'" Lake said. "People are beginning to think, 'I can see the light at the end of the tunnel, and maybe it's not a train coming the other way.'"