Indicators

United States

GDP

Date Published

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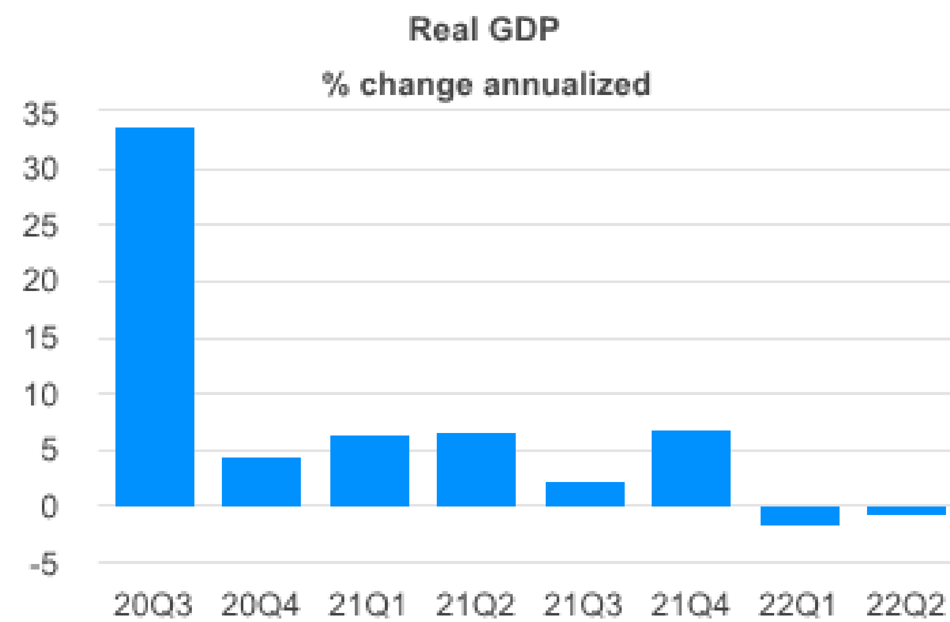
Actual	-0.6%, q/q, SAAR
Previous *	-0.6%, q/q, SAAR
Moody's Analytics	-0.6% q/q, SAAR
Consensus	-0.6%, q/q, SAAR
Coverage	2022Q2
Next Release	Oct 27, 2022
Updated	Sep 29, 2022

Definition Source



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First Take

U.S. GDP fell 0.6% in the second quarter, unrevised from the prior estimate, according to the BEA's third estimate, following a 1.6% decline in the first quarter. The release also contained annual revisions impacting data beginning in 2017, which contained a modestly less severe pandemic recession and slightly faster recovery. Inventories were a major drag on growth in the second quarter with fixed investment and government spending also falling. Exports and consumer spending grew. Nominal income grew, but real disposable income fell 1.5%, dragged down by rising prices. The saving rate dropped to 3.4% from a downwardly revised 4.3%. Profits rose 4.6% (not annualized) after rising 0.1% previously. Gross domestic income rose 0.1% after rising 0.8%.

Gross Domestic Product

	22Q2	22Q1	21Q4	21Q3	21Q2	21Q1	20Q4	20Q3
Annualized % change								
Real	- 0.58	- 1.63	6.96	2.65	7.00	6.32	3.91	35.32
Nominal	8.47	6.59	14.27	9.03	13.80	11.71	6.56	40.06
Implicit price deflator	9.10	8.35	6.84	6.21	6.35	5.07	2.55	3.51
Contributions to real GDP, annualized % change, ppt								
Consumption	1.38	0.91	2.14	1.98	7.84	6.98	2.53	26.34
Fixed investment	- 0.92	0.83	0.12	- 0.18	1.05	1.70	2.76	5.12
Fixed residential investment	- 0.93	- 0.15	- 0.05	- 0.29	- 0.24	0.52	1.30	2.21
Fixed nonresidential investment	0.01	0.98	0.17	0.10	1.29	1.18	1.46	2.91
Inventories	- 1.91	0.15	5.01	1.96	- 0.75	- 2.52	0.30	7.57
Net exports	1.16	- 3.13	- 0.16	- 1.08	- 0.60	- 1.02	- 1.68	- 2.74
Government	- 0.29	- 0.40	- 0.16	- 0.02	- 0.54	1.18	- 0.01	- 0.97

Gross Domestic Income

	22Q2	22Q1	21Q4	21Q3	21Q2	21Q1	20Q4	20Q3
Annualized % change								
Real	0.05	0.78	6.72	4.56	3.07	1.95	17.23	23.83
Nominal	9.16	9.20	14.01	11.05	9.62	7.12	20.22	28.17

Corporate Profits

	22Q2	22Q1	21Q4	21Q3	21Q2	21Q1	20Q4	20Q3
% change								
Total with IVA and CCA	4.59	0.13	0.79	2.03	7.67	10.48	- 5.01	23.22
Profits before tax	5.81	4.32	- 0.73	0.15	9.24	12.31	- 3.21	30.06
Profits after tax	7.40	2.63	- 2.35	0.10	9.16	12.89	- 4.14	31.17

The Numbers

- The expansion in economic activity paused in the first half of 2022 as measured by real GDP, as Russia's invasion of Ukraine further scrambled supply chains and inflation took a major toll on incomes and confidence. Output fell 0.6% at an annual rate in the second quarter, after falling 1.6% in the first quarter, according to the third report from the Bureau of Economic Analysis, which incorporated revisions beginning in 2017.
- Inventories were a major drag on growth, subtracting 1.9 percentage points from growth as the accumulation of inventories slowed. Inventories were a major support to growth in the second half of last year. Fixed investment fell, subtracting 0.9 percentage point from growth with residential investment leading the drag and nonresidential investment essentially flat as intellectual property investment continued to lead investment growth. Government was also a drag on growth in the quarter, with both federal, state and local spending falling led by federal.
- Consumer spending remained a source of growth but has been contributing only modestly because of weak real incomes. It added 1.4 percentage points to growth. Services accounted for more than all the contribution as nondurable goods spending fell in real terms and durable goods spending slipped as well. Trade flipped from a major drag on growth in the first quarter to an important support as surging exports offset continued growth in imports. Trade added 1.2 percentage points to growth.
- Revisions to second-quarter GDP were neutral on net. Upward revisions to consumer spending on services, federal government spending, and nonresidential fixed investment were offset by downward revisions to exports, residential fixed investment, goods spending, and private inventory investment. Imports were revised down.

- Annual revisions modestly boosted growth in real GDP in 2020 and 2021. However, gross domestic income was revised lower over the period. Household saving was higher in 2019 than previously reported but is falling more sharply in 2022, suggesting consumers are spending more of their pandemic excess saving than previously thought.
- Real GDP rose 1.8% compared to the comparable quarter in 2021. In the first quarter it was up 3.7%. Year-over-year growth was led by intellectual property investment and exports. Among the largest drags were imports and structures and residential investment.
- The mix was not as weak as the top-line decline would suggest. Final sales of domestic product, which exclude the impact on GDP from inventories, rose 1.3%, an improvement from the 1.8% decline in the first quarter and a reason to doubt the economy is in recession.
- The personal consumption expenditures price index showed an increase of 7.3% in the second quarter, following inflation of 7.5% in the first quarter. Excluding food and energy, prices rose 4.7% compared to a gain of 5.6% the prior quarter. Supply constraints are among the forces pushing up prices. Inflation remained high as the invasion of Ukraine has restricted supply of many goods, especially energy, but should be near its peak.
- Corporate profits rose 4.6% (not annualized) in the second quarter after inching up 0.1% in the first quarter. The profit gain was broad-based across reported segments but excluded domestic financial industries.
- Gross domestic income, an alternative measure of the size of the economy, rose a revised 0.1% pace in the quarter after rising 0.8% the prior quarter. The average of gross domestic product and gross domestic income fell 0.3% in the second quarter after falling 0.4% in the first quarter.

Behind the Numbers

The U.S. economy is struggling, but the job market's resilience dashes any worry that the economy is in recession or in imminent threat of suffering one. Real GDP—the value of all the goods and services the country produces—declined in the first half of the year, which is a necessary condition for recession but not a sufficient one. Job losses and rising unemployment are also required. However, the economy continues to create an extraordinary number of jobs, and unemployment is falling. Payroll employment in July increased by more than half a million jobs, fully recovering the jobs lost during the pandemic, and unemployment fell to a new cyclical low of 3.5%, tying the nadir in unemployment just prior to the pandemic. For context, given current underlying new cyclical low of 3.5%, tying the nadir in unemployment just prior to the pandemic. For context, given current underlying labor force growth, monthly job gains of no more than 100,000 would be consistent with stable unemployment.

The job market's resilience suggests that a recession beginning in the next three to six months is unlikely. Unless the COVID-19 pandemic or Russian invasion of Ukraine take dark turns or another inherently unpredictable shock slams the economy—a rail strike would have been a good example—it is hard to see businesses pulling back that quickly on their payrolls. Indeed, the more serious threat is that the job market continues to barrel along, pushing unemployment lower and wage growth and inflation higher. The Fed's efforts to cool the job market and inflation would be stymied, forcing an even more aggressive monetary policy response than what financial markets currently anticipate. This is the fodder for a recession in 12 to 18 months, which is an uncomfortably high even odds, more or less.

Growth will struggle to reach potential both this year and next. The rapid increase in interest rates will see to that. Housing activity has already slowed. While existing consumer debt is well-insulated, new big-ticket purchases are being discouraged and burdens will continue to rise as debt rolls over. The weakness in fixed investment is also likely a result of higher interest rates.

GDP is only one of many variables that the National Bureau of Economic Research, the de facto arbiter of U.S. recessions, uses to define a recession. Its definition is a "significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators." Outside of GDP, the other key data the NBER relies on have generally continued to increase, including real consumer spending, industrial production, weekly hours worked and, most strongly, nonfarm employment.

A large portion of the weakness in GDP is because of slowing inventory accumulation, a temporary phenomenon caused by businesses adjusting to wild swings in demand as the economy shut down and reopened. Domestic demand, including consumer spending and fixed business investment, continues to grow. Moreover, real gross domestic income, which totals up the income earned by households and businesses, and in theory should add up to real GDP, is also growing, if modestly, especially after revision.

Though the economy is not in recession, growth has sharply slowed, and the expansion is highly vulnerable to anything else that might go wrong. And it is not hard to imagine that something will go wrong, given the pandemic, what now seems a never-ending Russian military invasion of Ukraine, and unstable relations with China. The massive supply shocks continue to wreak havoc on the economy, as the pandemic-related supply-chain and labor market disruptions and the Russian invasion-related surge in oil the economy, as the pandemic-related supply-chain and labor market disruptions and the Russian invasion-related surge in oil and other commodity prices have fanned painfully high inflation and inflation expectations across the globe. Rapidly rising interest rates are another threat, if central banks, including the Fed, cannot navigate slowing without stopping the economy.