Daiwa Capital Markets

U.S. Data Review

- Q2 GDP: as expected, dreadful

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U.S. GDP

The U.S. economy contracted at an annual rate of 32.9 percent in the second quarter. The outcome was close to the consensus estimate of -34.5%, but it was striking nonetheless. The decline exceeded the previous record quarterly contraction by a wide margin (-10.0 percent in 1958-Q1; quarterly data beginning in 1947), and it was much worse than the softest performance during the financial crisis (-8.4 percent in 2008-Q4).

The retreat was broadly based, although some components were in the plus column. Government spending rose 2.7 percent as a double-digit advance at the federal level outweighed a drop in state and local spending. More of the federal support associated with the pandemic occurred in Q2 than we anticipated. Net exports also contributed positively, a surprising result given the widening in the monthly trade deficits. These upside surprises were offset by marked softness elsewhere. Residential construction fell at a 38.7 percent annual rate, much worse than the drop of approximately 25 percent we were expecting. Inventory investment also was weaker than expected, subtracting four percentage points from growth rather than two. Declines in consumer spending and business fixed investment were reasonably close to expectations.

GDP and Related Items*

		19-Q4	20-Q1	20-Q2
1.	**Gross Domestic Product**	2.4	-5.0	-32.9
2.	**Personal Consumption Expenditures**	1.6	-6.9	-34.6
3.	**Nonresidential Fixed Investment**	-0.3	-6.7	-27.0
3a.	**Nonresidential Structures**	-5.3	-3.7	-34.9
3b.	**Nonresidential Equipment**	-1.7	-15.2	-37.7
3c.	**Intellectual Property Products**	4.6	2.4	-7.2
4.	**Change in Business Inventories (Contribution to GDP Growth)**	-0.8	-1.3	-4.0
5.	**Residential Construction**	5.8	19.0	-38.7
6.	**Total Government Purchases**	2.4	1.3	2.7
6a.	**Federal Government Purchases**	4.0	1.6	17.4
6b.	**State and Local Govt. Purchases**	1.5	1.1	-5.6
7.	**Net Exports (Contribution to GDP Growth)**	1.5	1.1	0.7
7a.	**Exports**	3.4	-9.5	-64.1
7b.	**Imports**	-7.5	-15.0	-53.4
	Additional Items			
8.	**Final Sales**	3.2	-3.6	-29.3
9.	**Final Sales to Domestic Purchasers**	1.6	-4.6	-28.2
10.	**Gross Domestic Income**	3.3	-2.5	--
11.	**Average of GDP & GDI**	2.8	-3.7	--
12.	**GDP Chained Price Index**	1.4	1.4	-1.8
13.	**Core PCE Price Index**	1.3	1.6	-1.1

* *Percent change SAAR, except as noted*
Source: *Bureau of Economic Analysis via Haver Analytics*

The GDP price index fell 1.8 percent. Much of the retreat was the result of lower energy prices, but the slow economic environment also played a role. Non-energy softness was evident in the index for personal consumption expenditures excluding energy, which rose only 0.2 percent. Also, price indexes for components that would not have a large direct energy influence also eased. For example, the price index for business investment in structures fell 0.9 percent and the price index for business equipment fell 0.3 percent.

Today's report included benchmark revisions to GDP in the prior five years, although the picture did not change meaningfully. The average rate of economic growth over the course of the latest expansion (2009-Q2 to 2019-Q4) was still 2.3 percent. GDP growth in the first quarter was unrevised at -5.0 percent, although Gross Domestic Income (an alternative measure of total production) was better (i.e. less weak) than previously believed (-2.5 percent rather than -4.4 percent).