

U.S. Data Review

- Q2 GDP: pickup in consumer spending, but softening in other key sectors

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Q2 GDP

U.S. GDP contracted 0.9 percent in the second quarter (versus an expected pickup of 0.4 percent), following a drop of 1.6 percent in Q1. The back-to-back declines in output may not yet signal an economy in recession, but they do suggest that tighter financial conditions and headwinds from global developments have sapped much of the vigor from the expansion.

Consumer spending remained on a growth track in Q1 (up 1.0 percent), although outlays slowed from the pace in the prior three quarters (average growth of 2.1 percent). Outlays for services rose 4.1 percent, but goods spending dropped 4.4 percent. Within the goods category, outlays for food and beverages stood out on the soft side. Consumers are likely trimming real expenditures in response to soaring costs at the grocery store, and they are possibly shifting preferences toward cheaper or lower quality substitute products.

The trade sector also made a positive contribution to growth in Q2, as a surge of 18.0 percent in exports eclipsed an increase of 3.1 percent in imports. However, trade subtracted 3.2 percentage points from growth in Q1 and has been a consistent drag throughout the expansion. Headwinds from slowing growth abroad and a surging foreign exchange value of the dollar could leave a soft trade picture in coming quarters.

Other key sectors of the economy constrained growth in the latest quarter. Residential construction dropped 14.0 percent. New home construction eased as builders responded to softening demand (-4.4 percent), and a retreat by prospective homebuyers in the face of higher mortgage interest rates led to a plunge of 40.1 percent in brokerage commissions. Business fixed investment dipped (off 0.1 percent). Investment in intellectual property provided a bright spot with an increase of 9.2 percent, but spending on new structures and equipment both declined. While firms added to inventories in Q2, they did so at a slower pace than in the prior quarter, and thus inventory investment was a drag on growth (subtracting 2.0 percentage points).

Government spending at both the federal and state and local levels posted surprising declines. Federal government expenditures (-3.2 percent) were dragged lower by a drop of 10.5 percent in nondefense spending, but the change reflected a special factor – sales of oil from the Strategic Petroleum Reserve, which are recorded as a negative outlay and are thus a drag on growth. Defense-related spending, in contrast, rose 2.5 percent, possibly reflecting increased investment in equipment for the war in Ukraine. State and local spending eased for the third consecutive quarter (-1.2 percent) after a burst in the fall of last year.

The GDP report for Q2 again showed rapid inflation, as the GDP price index surged 8.7 percent after a jump of 8.2 percent in the first quarter. The change exceeded the increase of 7.1 percent in the price index for personal consumption expenditures (PCE), implying broad-based price pressure in the U.S. economy. Price indexes for the business sector, trade sector, and government all registered brisk increases.

GDP and Related Items*

	21-Q4	22-Q1	22-Q2
1. Gross Domestic Product	6.9	-1.6	-0.9
2. Personal Consumption Expenditures	2.5	1.8	1.0
3. Nonresidential Fixed Investment	2.9	10.0	-0.1
3a. Nonresidential Structures	-8.3	-0.9	-11.7
3b. Nonresidential Equipment	2.8	14.1	-2.7
3c. Intellectual Property Products	8.9	11.2	9.2
4. Change in Business Inventories	5.3	-0.4	-2.0
(Contribution to GDP Growth)			
5. Residential Construction	2.2	0.4	-14.0
6. Total Government Purchases	-2.6	-2.9	-1.9
6a. Federal Government Purchases	-4.3	-6.8	-3.2
6b. State and Local Govt. Purchases	-1.6	-0.5	-1.2
7. Net Exports	-0.2	-3.2	1.4
(Contribution to GDP Growth)			
7a. Exports	22.4	-4.8	18.0
7b. Imports	17.9	18.9	3.1
Additional Items			
8. Final Sales	1.5	-1.2	1.1
9. Final Sales to Domestic Purchasers	1.7	2.0	-0.3
10. Gross Domestic Income	6.3	1.8	--
11. Average of GDP & GDI	6.6	0.1	--
12. GDP Chained Price Index	7.1	8.2	8.7
13. Core PCE Price Index	5.0	5.2	4.4

* Percent change SAAR, except as noted

Source: Bureau of Economic Analysis via Haver Analytics