Eakinomics: Is the U.S. Facing a Double-Dip Recession?

NO!

Now that we have that out of the way, let me elaborate. I have detected a steady drumbeat of pessimism in the media and, especially, in questions I get from reporters. There seems to be a presumption that the U.S. economy is headed south imminently.

That seems very unlikely. The easiest way to see this is to check in with the GDPNow estimate produced by the Atlanta Federal Reserve Bank and the Nowcasting report by the Federal Reserve Bank of New York. In each case, the researchers track economic data (orders for capital goods, housing starts, retail sales, and so forth) as it is released and use historical relationships between the data and the overall economy to forecast the growth of gross domestic product (GDP) in the current quarter (the 3rd quarter of 2020 in this instance). Put differently, these real-time forecasts of current-quarter GDP efficiently summarize the implications of all the publicly available data.

What do they say? GDPNow currently indicates 3rd quarter GDP rising at a 25.6 percent annual rate, while the Nowcast checks in at 14.6 percent. The fact that they are so far apart tells you the difficulty of relying on noisy weekly and monthly data. But the more important fact is that they are nowhere near zero, much less a negative number. Unless something dramatic happens, there is no imminent threat of a double-dip.

What could happen? Well, the virus could threaten households again as it did in March and April. Recall that when the economy fell at an annual rate of 32.9 percent in the 2nd quarter, it was because household spending dropped at an even greater 34.6 percent rate – and services spending declined at a 43.5 percent rate. The only way to get a double-dip is for the household sector to fall apart (again).

But isn’t that going to happen? After all, Congress and the administration did not reach a deal and let the $600 per week supplement to unemployment insurance expire on July 31. Won’t that cause a recession? This sentiment – which I hear daily – reflects a mistaken notion that somehow the economy runs through Washington, DC. And it doesn’t address the magnitudes involved.
What are those magnitudes? With roughly 30 million participants, this expiration in benefits translates to $18 billion weekly. Let’s call it $20 billion for round numbers. Taken at an annual rate, this is roughly $1 trillion in income that has lapsed. Now, $1 trillion is a lot of money, but at present personal income is running at about $20 trillion a year. Literally taken at face value, this expiration is a decline of 5 percent. Since personal consumption expenditures are about 70 percent of GDP, this drop would contribute a maximum decline of 3.5 percentage points if every dollar of lapsed benefit turned into reduced spending. A headwind of 3.5 percentage points will not turn 14.6 or 25.6 percent into a negative number.

More important, that upper bound is unrealistic. Since the benefit was always temporary, one would have expected households to anticipate its demise and saved some of it for later in the year, if at all possible. So, spending will not decline by the full amount. In addition, the real-time data indicate that spending has held up best for the lowest-income households and continues to rise even after July 31. In the absence of another major shock from the coronavirus, a recession is not in sight.

Does this mean that all is peachy (technical economics term)? No. Employment and production are well below February levels and, even as the economy continues to grow, will remain so for an extended period. Smart policy can speed the recovery, and this would be desirable. But that is very different than saying that unless Congress and the administration reach a deal, the economy will fall off a cliff.