The Daily Dish

3rd Quarter GDP

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The Commerce Department reported yesterday that gross domestic product (GDP) grew at an annual rate of 2.6 percent in the third quarter (Q3) of 2022, a reversal from rates of -1.6 percent and -0.6 percent in Q1 and Q2, respectively. Equity markets rallied on the good news.

The right way to read the most recent data is that the U.S. economy continues to soften; growth is declining but remains positive. Meanwhile, as desired, inflation is moderating. The slowing is proceeding faster that most would like, while the latter is painfully slow.

How does the same report support both sets of conclusions? First, there is good reason to be suspicious of the topline 2.6 percent rate. Of the 2.6 percentage points, fully 2.77 percentage points (i.e., more than 100 percent) was contributed by a sharp upswing in net exports (which contained an even more anomalous decline in imports). This is the mirror image of the Q1 data, where the -1.6 percent was driven by a sharp decline in net exports. There's a good reason to suspect that both are plagued by data-collection errors of some sort.

Focusing on final sales to private domestic purchasers strips out these influences and targetsU.S. households and businesses. The annualized growth of these final sales has declined from 2.1 percent in Q1 to 0.5 percent in Q2 and rested at 0.1 percent in Q3. A different way to see the same thing is to focus on year-over-year growth, which averages out quarterly noise in the data. Looking at the same quarter one year prior, growth was 3.7 percent in Q1 and 1.8 percent in the past two quarters. There is clearly evidence of slowing, but no support for the idea of negative growth.

The same data provide a read on inflation (a more detailed read on inflation will be released this morning). The core (non-food, non-energy) price index for personal consumption expenditures based on market transactions has declined from 6.1 to 5.0 to 4.9 percent from Q1 to Q3. Is that progress? Yes. Is it frustratingly slow? Yes, again.

In short, the Q3 GDP data support the "success" of the Fed anti-inflation agenda – growth and inflation have slowed – but the progress is not sharp enough to point toward any moderation or course reversal in the foreseeable future.