



**The Daily Dish**

# Q3 GDP Report

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## **Eakinomics: Q3 GDP Report**

Yesterday the Bureau of Economic Analysis (BEA) released the initial estimates of growth in gross domestic product (GDP) for the 3<sup>rd</sup> quarter (July-September) 2020. This is the first comprehensive look at the pace and breadth of economic growth since the economy fell off the COVID cliff in the 2<sup>nd</sup> quarter, with GDP falling by 9.0 percent or 31.4 percent at an annualized rate. The vast majority of that decline was a sharp pullback in household spending; reduced consumption of services contributed 22 percentage points of the annual-rate decline.

As doubtless you will have heard by now, the 3<sup>rd</sup> quarter GDP growth rate clocked in at 33.1 percent (annualized). That is a huge number, but to put it in perspective it would have required a 45.8 percent rate in order to offset the decline in the 2<sup>nd</sup> quarter. That 12 percentage point gap is the reason to not overly celebrate the result; growth was good, but the level of GDP remains below the recent peak and unemployment remains elevated. Another way to see this point is that GDP is 2.9 percent below where it was in the 3<sup>rd</sup> quarter of 2019. Until year-over-year growth rates turn positive, the job of recovery remains unfinished.

Turning to the composition, the basic story is pretty simple. The growth in GDP can be accounted for by household spending and accumulation of inventories; business investment, residential investment, trade, and government spending netted to essentially zero. Overall, household spending (personal consumption expenditures, to be precise) grew at a 40.7 percent annual rate. The composition shifted markedly, however. Durable goods purchases grew at a Buzz Lightyear-esque rate of 82.2 percent, nondurables 28.8 percent, and services 38.4 percent. Because, however, the 2<sup>nd</sup> quarter decline was driven by reduced services consumption, it would have required a 71.8 percent rate for services to fully recover. People are spending, but it is on “stuff” and not at restaurants, hotels, shows, and other activities that have large interpersonal interactions. The durable goods number is so strong that year-over-year growth is actually positive – 6.9 percent. National defense outlays are the only other category that has grown compared to a year ago.

The bottom line is that the 3<sup>rd</sup> quarter grades out to “so far, so good.” The real test is maintaining relatively rapid growth and getting people back to work in the face of a resurgent virus as the nation turns the corner to 2021.