



July 28, 2022

Daily Deck: Q2 GDP – that was a doozy

We are not sure how many of you need to hear this, but per the NBER (the arbiter of recessions – and ultimately that’s all that matters), contrary to what many people say, two consecutive quarters of declining GDP does not a recession make. The definition is on their website for anyone who wants to see it for themselves. One of the “tells,” per the NBER, is decline in activity “spread across the economy.” That criteria has not been met at this point.

But in all honesty, we are less interested in inserting ourselves into that part of the conversation (which just feels like a political food fight), mostly because we think it misses a much more important point. Per our *Daily Deck* from last month on recession [\[link\]](#), we think whether the NBER calls a recession today, or in Q4, or Q1, or whenever, the reality is things are already feeling recessionary, just as we highlighted in that *Daily Deck* and in various other notes even prior to that.

We had long expected consumer spending on goods would decline in Q2 and they did – about as much as we expected. The problem is we expected more thrust from services spending and it did not materialize. And, if not now, when? Yes, service spending will hang in there for now (see the recent Mastercard earnings call as a great example), meaning Q3 consumption will likely expand modestly too (well, we expect that for now). But we think Q4 is likely to be much softer for the many reasons we highlighted in the aforementioned recession note.

Also in that recession note we flagged capex would likely decline. It did. We think that could go on for a bit – but, we stress, over the more medium term, capex should be fine as we think there are enough reasons (on-shoring/near-shoring/supply chains, prior labor tightness, etc.) for companies to try to build productive capacity (though clearly that’s on hiatus at the moment).

And then there is housing. It got dinged hard in Q2. And given that pending home sales number from yesterday (which was dreadful), there are more “dings” waiting for this sector in the coming quarter too.

So we don’t see the point in fighting over whether two quarters of decline is the right rule for recession or if activity has declined across enough of the economy. Things are feeling recessionary now.

As we said in that note, we don’t think this has to last too long. But the problem is we just don’t see a catalyst for a meaningful bounce out of it, which could just make things feel pretty sluggish over the coming year (well, we highlighted one way to get a strong bounce, related to fiscal spending. See that note for more.).

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