ECONOMIC NEWS



# A Second Drop by U.S. Real GDP … but Still No Official Recession

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## HIGHLIGHTS

- Real GDP in the U.S. shrank at an annualized rate of 0.9% in the second quarter, in line with our expectations. Forecasters had called for a small gain of 0.4%.
- This decline was preceded by a 1.6% drop in the first quarter. A technical recession is defined as two consecutive quarters of falling real GDP, which means the U.S. economy has technically been in a recession since the start of 2022.
- That being said, the United States doesn't use this definition to determine when an official recession begins, instead relying on a committee at the National Bureau of Economic Research. The committee looks at a wider range of factors—not just real GDP—to determine U.S. economic growth cycles. Evidently, the conditions aren't in place to declare a recession, especially since the labour market is still showing signs of strength.

## COMMENTS

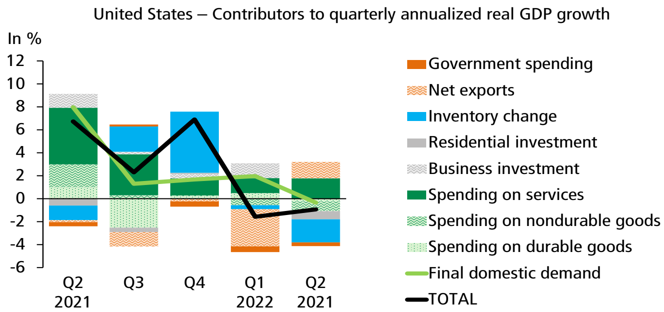
As expected, weaker inventory was one of the largest culprits behind this drop in real GDP during the second quarter. Inventories pulled it down 2.0%. This shows that major global supply chain disruptions are causing serious issues for the U.S. economy.

Residential investment also declined at an annualized pace of 14.0% in the second quarter, which dragged down the quarterly annualized variation in real GDP by 0.7%. The Fed's aggressive rate hikes clearly played a huge role in the decline.

Consumer spending edged up just 1.0% in the second quarter, due to a sharp drop in goods. This is the smallest increase since the first wave of the pandemic. The slowdown is largely explained by the spike in sales prices. Expressed in nominal terms, consumer spending posted gains of 8.1% for the quarter, pointing to the restrictive effects of higher prices.

**GRAPH**

**Inventories played a major role in Q2's drop in real GDP**




Sources: Bureau of Economic Analysis and Desjardins Economic Studies

## IMPLICATIONS

Our forecasts indicate that the U.S. economy should return to positive territory by the next quarter as inventories rebound. With the labour market holding strong, the recent setbacks in the economy will not stop the Federal Reserve from continuing to battle rising inflation. More rate hikes will follow in the coming months, though probably at a more moderate pace.

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