Ameriprise Financial

Economic Views Brief

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Are we already in a recession?

Two quarters of negative GDP growth? Real (i.e., inflation adjusted) consumer spending declined by a weaker than expected 0.4% in May, according to yesterday's Commerce Department report. The results for April were revised slightly lower as well.

Upon updating our Gross Domestic Product (GDP) model for this new information, we now see real U.S. GDP growth for Q2 at just +0.3%. This leaves little room for error in keeping growth for the period in positive territory. The Atlanta Fed's GDPNow estimate for the quarter was likewise revised down to -1.0% from a prior +0.3%.

There is still one month's worth of data to consider (June) before we get the Commerce Department's first estimate of Q2 real GDP at the end of July. However, with such a slim margin between positive and negative territory, the odds of a "negative print" for the quarter are quite high. If a contraction is reported for Q2 it would follow the -1.6% real GDP performance of Q1 to represent a second consecutive quarter of negative real GDP growth, thus meeting what many see as the historical definition of "recession."

Key Takeaways

- We may meet the historical definition of "recession" over the near-term without actually achieving the official designation.
- Increased recession talk could further weigh on consumer and market sentiment. However, we believe consumer, business and market sentiment already reflect recessionary levels. I.e., a recession already appears priced-in.
- Should an "official" recession yet arrive, we believe it would be relatively short and shallow.
- Consumers remain in sound financial condition, in our view, but higher prices and a jump in borrowing costs should be expected to hinder spending.

When might a recession NOT be a recession? As we've mentioned on prior occasions over the last few months, recessions are no longer measured as two consecutive quarters of negative real GDP growth. Recessions are now determined by a committee of economists that consider a number of economic measures, including changes in employment, personal income, business investment, industrial production and other factors. We do not believe economic conditions of the last several months would qualify under the enhanced qualifications.

The National Bureau of Economic Research (NBER), a private, non-profit research organization is the accepted official designator of recessions. Rather than relying on an exact formula, the NBER Committee "weighs the depth of the contraction, its duration, and whether economic activity declined broadly across the economy," according to the NBER.

We may yet meet the "official" designation. In our view, the present period of economic weakness is far from over. Though we currently forecast positive economic growth for Q3 and Q4, our estimates are close-enough to breakeven as to be within a close margin for error between positive and negative territory.

Does it feel like a recession? In thinking back over the last six months, we believe most people would not see conditions as having been recessionary. Yes, inflation has surged and the stock market is down, but nominal consumer spending and business investment have continued to grow as have job growth and consumer income. Inflation and higher interest rates will likely remain a material headwind for growth over the intermediate-term but we still see sound consumer finances and healthy business balance sheets as supportive of economic conditions through this period,

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