

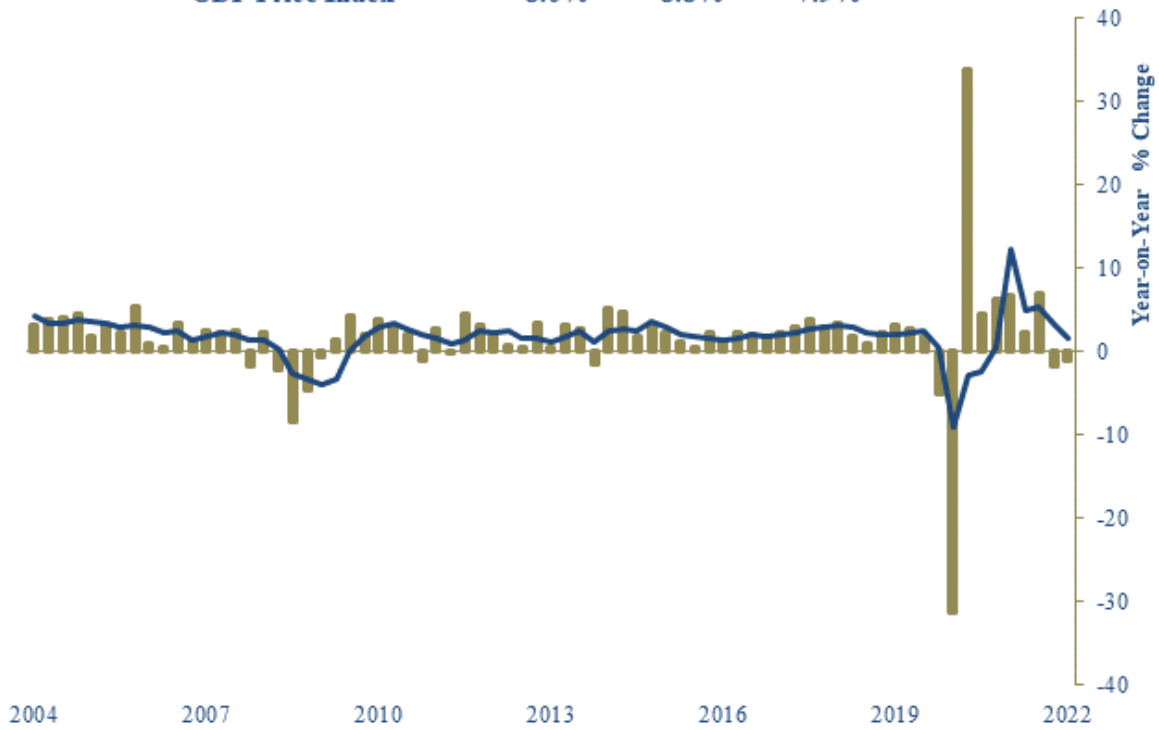
28.Jul.2022

2Q22 GDP: 2nd Quarter of Contraction

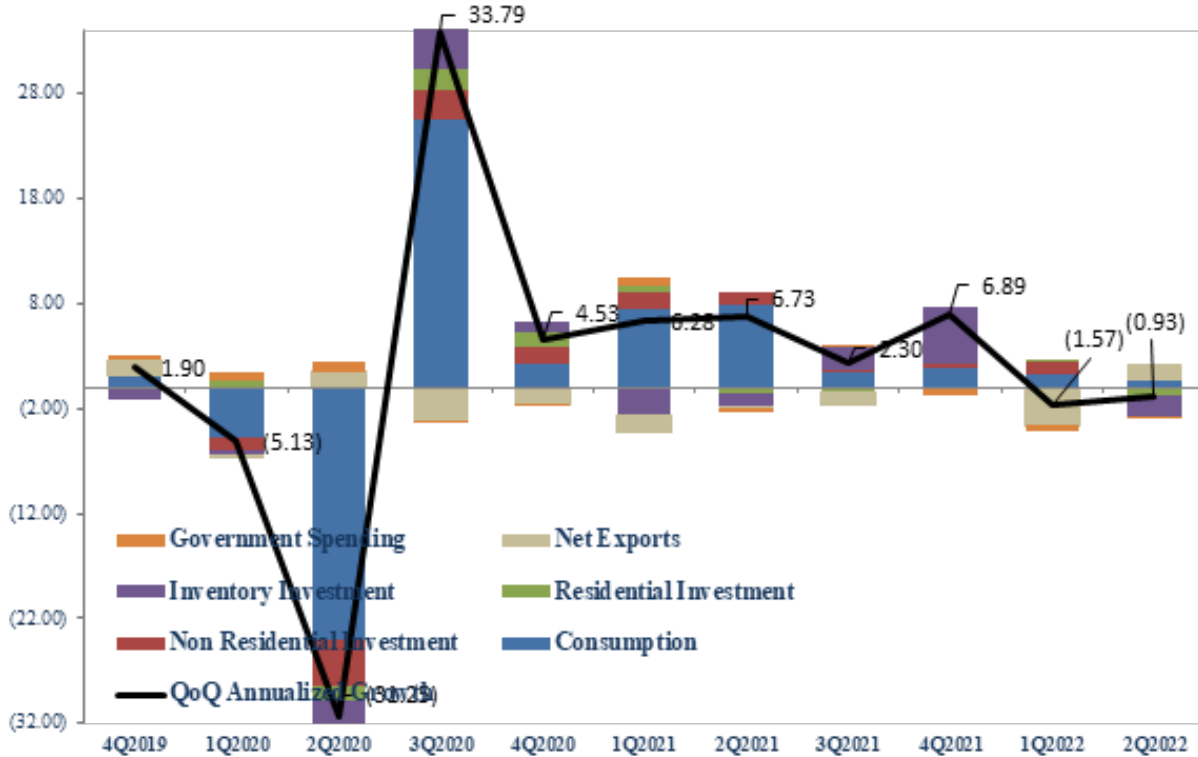
Bottom Line: The advance reading of 2nd Quarter GDP showed a contraction of -0.9% after 1st Quarter's contraction of -1.6%. While there has been even higher than usual volatility in categories like inventories and trade (inventories knocked 2 points off 2Q growth and trade hit 1st Quarter for over 3 points), the 2Q report showed slowness in key parts of the economy. Final domestic demand, a critical metric of the underlying trend, fell -0.3% in 2Q after rising 2% in Q1. Moreover, real final sales have risen just 0.3% annualized in the last four quarters. Finally, residential fixed investment was a drag of 0.7% in 2Q as the housing market slowed sharply on the back of higher mortgage rates. Overall, while always volatile and prone to revision, the advanced reading of 2Q dashed hopes that economic activity has actually been better than hoped. Nominal growth remains positive, but not strong enough to make up for the increases in prices. And this report brings up the question of the next shoe to drop -- it now seems only a matter of time until we see material weakness in labor markets.

GDP

	Cons.	Actual	Prior
GDP	0.4%	-0.9%	-1.4%
GDP Price Index	8.0%	8.8%	7.9%



US Quarterly GDP (seas. adj. ann rate) with contributions in bar graphs

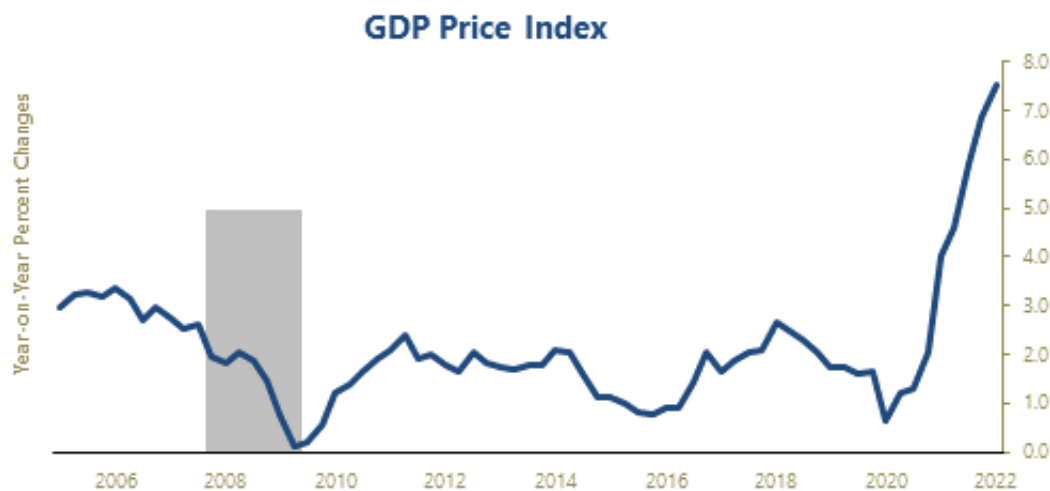


Gross Domestic Product FELL by 0.9% in the 2nd Quarter, lower than market expectations for an increase of 8.0%. Economic activity was 1.6% ABOVE its year-ago level.

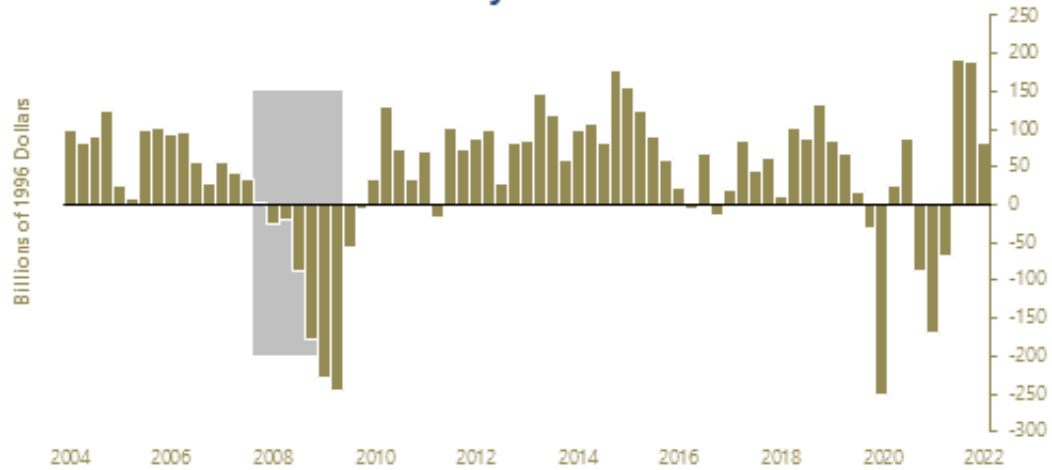
Inventory Investment FELL by \$106.9 billion, subtracting 2.01 percentage points from overall economic activity. Consequently, **Real Final Sales** ROSE by 1.1% and was 0.3% ABOVE its year-ago level. Additionally, Imports ROSE by 3.1% and Exports ROSE by 18.0% so **Net Exports** ROSE by \$70.0 billion. This implies that **Real Final Domestic Demand** FELL by 0.3% and was 1.1% ABOVE its year-ago level.

Consumer Spending ROSE by 1.0%, contributing 0.70 percentage points to economic growth. **Business Investment** FELL by 0.1%, subtracting 0.01 percentage points to GDP. Intellectual property products increased by 9.2% while non-residential structures declined by 11.8%. **Residential Investment** FELL by 14.0%, subtracting 0.71 percentage points to economic growth. Finally, **Government Purchases** FELL by 1.9%, subtracting 0.33 percentage points to GDP. This was its 6th negative contribution in the last 12 quarters.

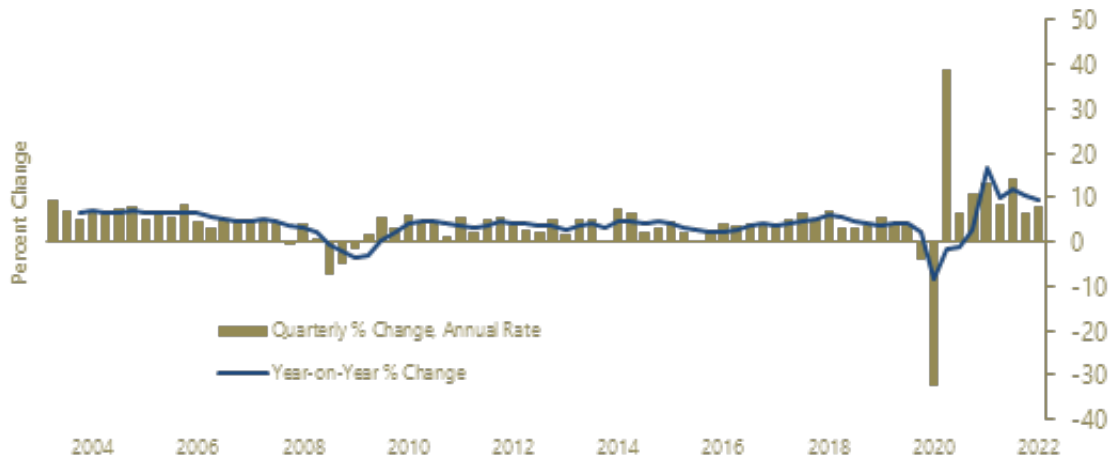
The GDP Price Index ROSE by 8.8%, compared with market expectations of 8.0%. This is also 7.6% ABOVE its year-ago level.



Inventory Investment



Nominal GDP



GDP - by annual % Change

	% Change at Annual Rate (unless noted as \$)									
	Quarterly Averages						Annual Averages			
	Q2-22 Advance	Q1-22	Q4-21	Q3-21	Q2-21	Q1-21	2021	2020	Five Year	Ten Year
Real GDP	-0.9	-1.6	6.9	2.3	6.7	6.3	5.7	-3.4	1.9	2.0
Consumption	1.0	1.8	2.5	2.0	12.0	11.4	7.9	-3.8	2.3	2.3
Business Fixed Investment	-0.1	10.0	2.9	1.6	9.2	12.9	7.4	-5.3	3.3	4.0
Residential Investment	-14.0	0.5	2.1	-7.7	-11.7	13.3	9.2	6.8	3.6	6.3
Inventory Investment (\$ Chg)	-106.9	-4.7	260.0	101.7	-80.2	-177.1	9.7	-117.4	-13.7	-7.9
Net Exports (\$ Change)	70.0	-194.6	-33.5	-72.1	-18.4	-93.3	-341.6	-37.4	-105.4	-71.3
Exports	18.0	-4.8	22.4	-5.3	7.6	-2.9	4.5	-13.6	-0.7	0.8
Imports	3.1	18.9	17.9	4.7	7.1	9.3	14.0	-8.9	2.7	2.9
Government Purchases	-1.9	-2.9	-2.6	0.9	-2.0	4.2	0.5	2.5	1.4	0.5
Addendum:										
Real Final Sales	1.1	-1.2	1.5	0.1	8.1	9.1	5.3	-2.9	1.9	2.0
Final Domestic Demand	-0.3	2.0	1.7	1.3	8.0	10.4	6.5	-2.5	2.3	2.3
Price Index (final sales)	8.8	8.2	7.1	6.1	6.3	4.5	4.3	1.3	2.3	1.9

Source: Bureau of Economic Analysis, Department of Commerce via Bloomberg. Our calculations.

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GDP - by contribution

	% Contributions									
	Quarterly						Annual Averages			
	Q2-22 Advance	Q1-22	Q4-21	Q3-21	Q2-21	Q1-21	2021	2020	Five Year	Ten Year
Real GDP	-0.9	-1.6	6.9	2.3	6.7	6.3	5.7	-3.4	1.9	2.0
Consumption	0.7	1.2	1.8	1.4	7.9	7.4	5.3	-2.6	1.6	1.5
Business Fixed Investment	0.0	1.3	0.4	0.2	1.2	1.7	1.0	-0.7	0.4	0.5
Residential Investment	-0.7	0.0	0.1	-0.4	-0.6	0.6	0.4	0.3	0.1	0.2
Inventory Investment (\$ Chg)	-2.0	-0.4	5.3	2.2	-1.3	-2.6	0.4	-0.5	0.0	0.0
Net Exports (\$ Change)	1.4	-3.2	-0.2	-1.3	-0.2	-1.6	-1.4	-0.3	-0.5	-0.3
Exports	1.9	-0.6	2.2	-0.6	0.8	-0.3	0.5	-1.6	-0.1	0.1
Imports	-0.5	-2.7	-2.5	-0.7	-1.0	-1.3	-1.9	1.3	-0.4	-0.5
Government Purchases	-0.3	-0.5	-0.5	0.2	-0.4	0.8	0.1	0.4	0.2	0.1
Others:										
Defense	0.1	-0.4	-0.2	-0.1	0.0	-0.3	0.0	0.1	0.1	0.0
Intellectual Property	0.5	0.6	0.5	0.5	0.6	0.8	0.5	0.1	0.3	0.3
Equipment	-0.2	0.7	0.2	-0.1	0.7	0.8	0.7	-0.5	0.2	0.2
Medical Care	0.4	-0.1	0.4	0.5	1.1	-0.5	0.8	-1.0	0.1	0.2

Source: Bureau of Economic Analysis, Department of Commerce via Bloomberg. Our calculations.