

Why We're Not Ready to Call This a Recession (Yet)

Presented by Joe Lamoglia, ChFC®, Principal and Senior Advisor

The gross domestic product (GDP), which is considered the first estimate of national economic growth, was reported this week at a decline of 0.9 percent from last quarter. This is the second consecutive decrease, although it's an improvement over last quarter's drop of 1.6 percent. By some definitions, a recession is identified by declines in the GDP for two quarters in a row, so you can expect this report to trigger headlines over the next several days indicating that we're now officially in a recession. But are we?

Getting Technical

Before you worry too much, you need to know a few things. First, the formal definition of a recession isn't that simple—and by other standards, we aren't in a recession yet. Second, when you look at the causes of those declines in both quarters, they are not what drives a true recession, but more of a technical recession, if you even want to call it that. A recession, to the average person, is when the economy shrinks (which *is* happening). But evidence of a shrinking economy includes job losses, stores closing because people aren't shopping, and the general kind of misery that affects day-to-day life. When we look around, that's not what we see.

Job growth remains strong, with millions of excess job openings available and voluntary quit rates still close to all-time highs. Consumer spending is still growing, albeit at a slower rate, and business investment is basically flat. Yes, inflation has hurt confidence; but the economy continues to grow in ways we wouldn't see during a recession.

Evidence of Growth

Another factor is gross domestic income (GDI), the much-less-reported twin to GDP. GDP is purchases, and GDI is income. In theory, they have to be equal. They are usually quite close, but so far we've had a discrepancy this year: GDP is down while GDI is up. When this kind of gap has opened in the past, GDP often ends up being revised to match GDI. Growth in income usually means growth overall, and that's what we see on a longer-term basis. The annualized quarter-over-quarter number is what's reported, but the year-over-year number (in which the economy is compared to where it was a year ago) still shows growth. It shows slower growth, but it still shows growth.

Analyzing the Drops

This year's first- and second-quarter declines were due more to adjustments in the aftermath of the Covid-19 pandemic than real economic weakness. Exports dropped enough to take overall growth into negative numbers during the first quarter but have since rebounded. In the second quarter, much of the weakness was due to businesses continuing to cut their inventories—not because of sales declines. As the economy continues to recover from the pandemic, however, what people are buying has changed. In both cases, this is a post-pandemic adjustment, not something worse.

A Positive Spin

Make no mistake, the data is showing that growth has slowed across the board and will likely continue to do so. We could be looking at a real recession sometime in the next year or so. But, despite the numbers, we're not there yet. Job growth is still strong, businesses are still investing, and national income is still growing, none of which happens in a recession. If that's what we're calling the current economy, it's better in some ways than many non-recessionary periods we've seen in the past decade.

Even if the headlines shout "recession," the average person is still able to work and shop despite inflation and other hardships. So, as recessions go, we can consider ourselves lucky if our current situation is as bad as it gets.

###

Joe Lamoglia, ChFC®, Principal and Senior Advisor is located at Potomac Financial Private Client Group, LLC, 11130 Sunrise Valley Drive, Suite 130, Reston, VA 20191 and can be reached at 703.891.9960. The financial consultants of Potomac Financial Private Client Group, LLC are Registered Representatives with/and offer securities and advisory services through Commonwealth Financial Network Member FINRA/SIPC, a Registered Investment Adviser. Fixed insurance products and services are separate from and not offered through Commonwealth Financial Network.