

US Macroeconomics

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Conflicting Signals

Gross domestic product (GDP) is constructed by adding up economy-wide spending. Gross domestic income (GDI) is constructed by adding up economy-wide income. Since one person's spending represents someone else's income, GDP and GDI in theory should be the same. But this is not the case.

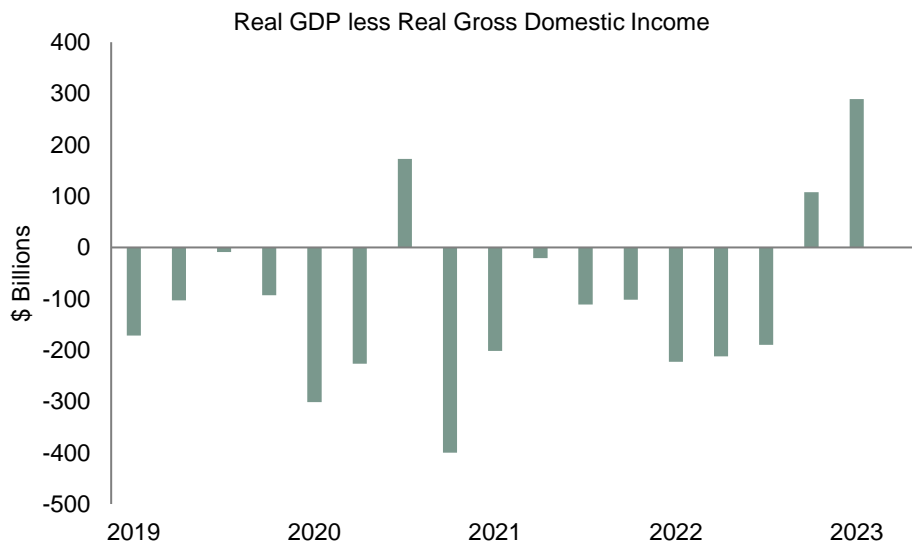
The difference in both measures of economic output is known as the **statistical discrepancy**, which is plotted in the chart below. For reasons that are not clear, GDI has been growing consistently growing above GDP for the past dozen years. But this has changed.

GDP has grown much faster than GDI over the past two quarters. The statistical discrepancy was \$290 billion last quarter, the highest reading since Q1 2009. This is a big change from last year when the discrepancy was as low as -\$223 billion (Q1 2022). Consequently, there has been a stark difference in the two series' growth rates.

In Q4 2022 and Q1 2023, real GDP grew 2.6% and 1.3%, respectively. But real GDI plunged 3.3% and 2.3% during this time. Notice how each measure of economic output produces a very different profile on the economy's underlying momentum.

Since the economy began slowing in 2022, real GDP growth has averaged a paltry 1.0% annualized pace, but real GDI growth has averaged an even weaker -0.6%. If growth is as weak as the latter suggests, an imminent downturn lurks. The unemployment rate is poised to rise quickly. Which measure should investors look at?

Given the stark differences in growth rates, averaging the two metrics is probably the best approach. But this still produces back-to-back declines in output of -0.4% and -0.5% for Q4 2022 and Q1 2023. So, a recessionary backdrop persists. This is one reason why the economy does not need higher rates.



Sources: BEA, Haver, SMBC Nikko

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