US Macroeconomics

Joseph Lavorgna, Chief US Economist | 212.893.1528 | joseph.lavorgna@smbcnikko-si.com

May 31, 2023

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.
Disclaimers

This document is provided by SMBC Nikko Securities America, Inc. ("SMBC Nikko"), the US-registered broker-dealer affiliate of Sumitomo Mitsui Banking Corporation, for informational purposes only. This document was prepared by SMBC Nikko’s economist(s). The views statements, assumptions and forecasts expressed herein are those of the author(s) and do not reflect the judgment of any other person or of SMBC Nikko, it does not constitute an offer, or solicitation of the sale or purchase, of securities or other investments. The information contained herein is obtained or derived from sources believed to be reliable, but SMBC Nikko and the author(s) make no representations as to its accuracy or completeness. In some cases, such information may be incomplete or summarized. This document has been prepared based on assumptions and parameters determined by the economist(s) in good faith. The assumptions and parameters used are not the only ones that could have been selected, and therefore no guarantee is given as to the accuracy, completeness, or reasonableness of any such quotations, disclosures, or analyses. Past performance is not a reliable indicator of any future results.

This document has been prepared for and is directed at institutional investors and other market professionals and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient. The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient. SMBC Nikko and its affiliates do not accept any liability or responsibility for any results in connection with the use of such information. Recipients are responsible for making final investment decisions and should do so at their own discretion after conducting a careful examination of all documentation delivered prior to execution, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents, and their own independent analysis and assessment of the merits of any transaction. The financial instruments discussed may be speculative and may involve risks to principal.

Conflicts of Interest Disclosures

The views statements, assumptions and forecasts expressed herein may differ from those expressed in globally branded research produced by SMBC Nikko or its affiliates. The trading desks of SMBC Nikko and its affiliates trade or may trade as principal in the financial instruments that are the subject of this material, and the author(s) of this document may have consulted with the trading desks while preparing this document. The proprietary interests of SMBC Nikko and its affiliates may conflict with those of the recipient. SMBC Nikko and its affiliates may seek to do business with the companies mentioned in this material and the trading desks may have accumulated, be in the process of accumulating, or accumulate long or short positions in the financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This material is not a research report, and neither this material nor its author(s) is subject to SMBC Nikko policies and procedures that apply to the globally branded research reports and research analysts of SMBC Nikko and its affiliates or to legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that on the date of this document, SMBC Nikko, its affiliates, and their respective directors, representatives, or employees, may have a long or short position in any of the instruments mentioned in this document and may make a market or trade in instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent.

No part of the author(s) compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of authors may differ from one another.

Distribution, possession or delivery of this document in, to or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.