# US Macroeconomics

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## Blockbuster or Dud?

Consumer spending accounts for approximately 70% of expenditures-based GDP. Consequently, household expenditures have a disproportionate impact on the economy's quarterly performance.

**The Atlanta Fed GDPNow estimates current quarter real GDP is growing at nearly 6%, which is much too high in our view.** Imbedded in this forecast is a near 5% increase in consumption.

Why do we care? **This outsized estimate was a catalyst in helping to push the yield on the 10-year Treasury note above 4.30% a couple of weeks ago**. To place this forecast into perspective, the last time the economy grew 6% or more (excluding the V-shaped pandemic rebound) was Q3 2003, a long time ago.

However, the Q3 2003 surge was the result of the Jobs and Growth Tax Relief Act of 2003 which cut dividend, capital gains and marginal tax rates. Consumption grew almost 7% that quarter, but no such fiscal stimulus accounts for the current predicted bulge. Current GDP estimates are much too high.

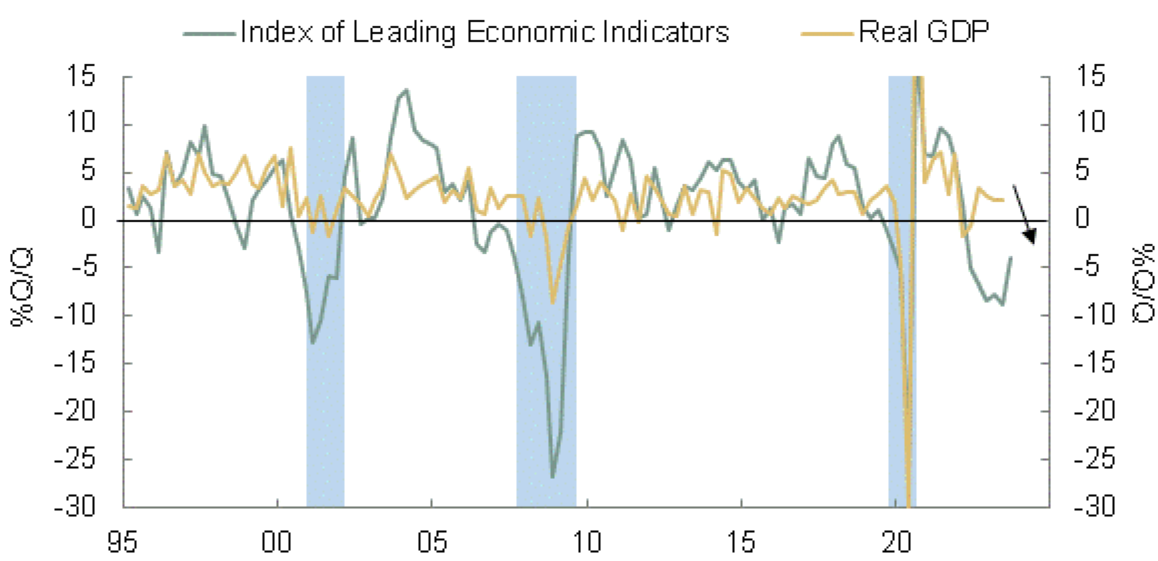
In our view, **the economy is not growing anywhere near 6% for a few reasons simple reasons**. For starters, the number is inconsistent with the trends in job growth and productivity, both of which are slowing. In addition, the Index of Leading Economic Indicators (LEI) continues to decline, suggesting real GDP growth should be negative.

In fact, **the three-, six- and 12-month annualized rates of change on nonfarm payrolls are 1.7%, 1.7% and 2.2%, respectively**. Moreover, this trend is set to continue when August jobs data are released this Friday.

At the same time, **productivity is up only 1.3% over the past year**, and this was after a near 4% sequential gain last quarter. Given the zig zag behavior of quarterly changes in productivity, some payback is in store.

Since top-down GDP growth can be estimated by adding jobs and productivity, the arithmetic does not add up to anything close to 6%. Both series are expanding in the 1 to 2% range. Lastly, the level of the July LEI is down 4% annualized versus its Q2 average. So why is the Atlanta Fed so high?

Our best guess is that forecasters are extrapolating through the remainder of the quarter using strong July preliminary goods spending data. When complete July consumption spending is released tomorrow, estimates of current quarter consumption could come down a lot. If so, real GDP will too.




Sources: Conference Board, BEA, Haver, SMBC Nikko

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