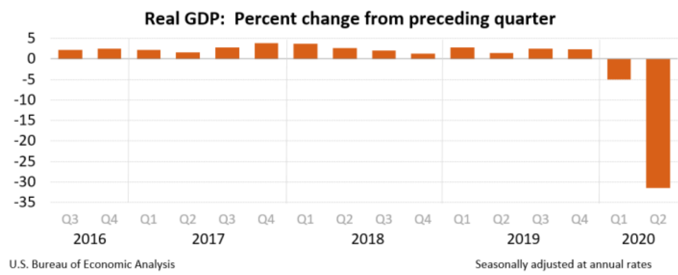
Market Insights - September 30, 2020

Gross Domestic Product: From Worst to Best in 3 Months?

GDP – Marginal Improvement in 2Q

Remember back on July 30th when the Commerce Department reported its "Advance Estimate" that GDP decreased at an annual rate of 32.9% in the second quarter of 2020? It would have been the worst quarterly decline in history.

Well, on September 30th, the Commerce Department reported that its "Third Estimate" of 2Q2020 GDP improved marginally to a decline of 31.4%. But saying it improved marginally seems disingenuous on its face because this 30%+ decline is on the heels of the 5% decline in the first quarter. And whether the number is 31.4% or 32.9%, it's still the worst quarterly decline in history – by a long shot.



GDP – A Very Complete Picture

The Commerce Department's Bureau of Economic Analysis compiles the GDP report monthly and it is one of the most closely-watched reports on our economy given how much economic information it contains. Not only does the GDP report provide detailed data on how our economy is performing, but it also provides data that can help investors identify certain trends going forward. Broadly speaking, there are four main components of the GDP report, including:

1. Personal consumption;
2. Business investment;
3. Government spending; and
4. Net exports.

The data from the BEA's GDP report includes a wealth of information, including details on how much we spend and on what, inflation indices, corporate profits and details on imports and exports.

As such, all investors should heed GDP numbers because the data paints a very good picture of the economic backdrop for both equity and fixed-income markets alike, which of course helps inform the performance of their portfolios.

Reasons for the Decline in GDP

Unless you've been living under a rock, you know the reason behind the drop in our GDP: COVID-19. In fact, this is taken directly from the GDP release:

"The decline in second quarter GDP reflected the response to COVID-19, as "stay-at-home" orders issued in March and April were partially lifted in some areas of the country in May and June, and government pandemic assistance payments were distributed to households and businesses. This led to rapid shifts in activity, as businesses and schools continued remote work and consumers and businesses canceled, restricted, or redirected their spending. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the second quarter of 2020 because the impacts are generally embedded in source data and cannot be separately identified."

Third Quarter GDP: Historic?

On October 29th, the Commerce Department will release the "Advance Estimate" for Third Quarter GDP and it's generally expected that GDP will rise at a historic rate. Should investors get overly excited if the 3Q2020 GDP number comes in north of 30%? Because after all, that would be the highest GDP gain of all time (previous record was about 16%). The answer is no because perspective for the worst and best is important.

More Data Later in the Week

More economic data will be released later this week, including Manufacturing data on Thursday and Motor Vehicle Sales on Friday.

Sources: bea.gov