

GDP: Recession Arrives, Consumer Weakness Dominates

Real GDP fell 0.3 percent in the third quarter of this year suggesting a recession has begun. Weakness was driven by consumer spending, down 3.1 percent, as higher gas prices, housing weakness and job losses created huge headwinds for the consumer. Business equipment spending declined while strength was added by exports and government spending.

Weak Domestic Sales, Fundamentals Dominate

- Consumer spending fell 3.1 percent with durable goods declining 14 percent. Fundamentals—job declines and wealth losses in housing and financial assets—led to retrenchment.
- Business investment in equipment & software declined while structures spending slowed. Fundamentals dominated again; expected final sales fell, profits declined and credit was scarce.

Inventories-Possible Upside Revision

- BEA officials assumed a large decline for inventories in September. This could be overstated which could result in an upward revision in GDP next month.
- Real final sales declined in the third quarter by 0.8 percent. This suggests underlying weakness in aggregate demand for the economy. Recession continues to be the outlook.

