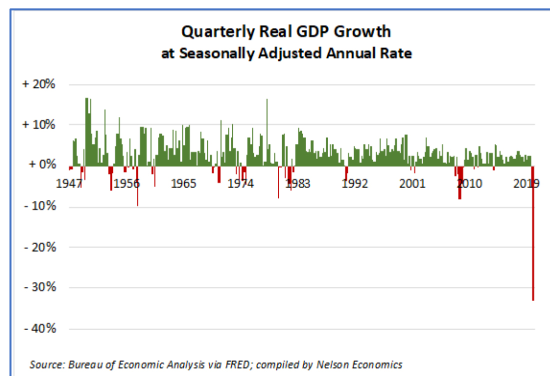
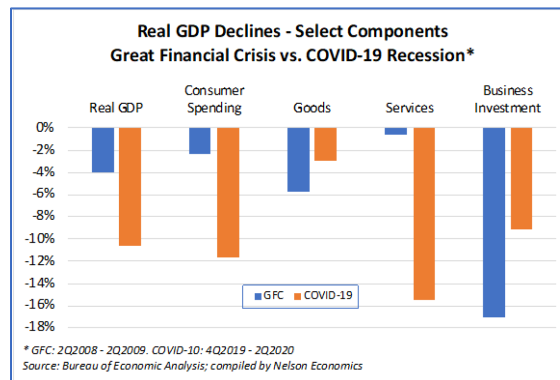
2Q20 US GDP – A Recession Like No Other

Andrew J. Nelson, CRE
July 30, 2020

The preliminary estimate of second-quarter headline GDP released today was ugly if not unexpected: the 9.5% plunge over the prior quarter translates to a 32.9% annualized decline, more than three times the greatest prior quarterly fall since the government started tracking GDP in 1947. The modicum of good news is that economic output apparently bottomed out in April and rebounded somewhat in May and June, though the most recent data suggests the recovery is now stalling.



But almost as unusual as the magnitude of the overall decline are the trends in the underlying GDP components. A typical recession hits businesses harder than consumers, and consumer spending on goods harder than spending on services, as happened in the Great Financial Crisis (measured from the peak GDP in 2Q08 through its trough in 2Q09).



So far in this recession, however, business spending (-9.2%) has been more resilient than consumer spending (-11.7%) – not surprising given the massive unemployment and plummeting consumer confidence. Even more unusually, spending on goods (-2.9%) is holding up better than spending on services (-15.5%). The reason is obvious: Many goods retailers (which includes grocers and pharmacies) have remained open throughout the pandemic, while services from restaurants to salons, and sports arenas to concert halls, were largely shuttered – some to this day. Unfortunately, services account for a growing share of GDP, magnifying the economic impact of this downturn, with no realistic end in sight.

© 2020 Nelson Economics