

Snap | 27 October 2022

# US GDP is back in the black

After two consecutive quarters of negative GDP growth the economy has expanded by 2.6% in the third quarter. However, the outlook is deteriorating rapidly as the cumulative effects of 300bp of rate hikes weigh on activity and the Fed signals it will tolerate a sustained period of sub-trend growth to ensure inflation hits target



Third quarter GDP rose by 2.6%

2.6%

Third quarter GDP growth

(QoQ% annualised)

Higher than expected

## Net trade drives third quarter GDP higher

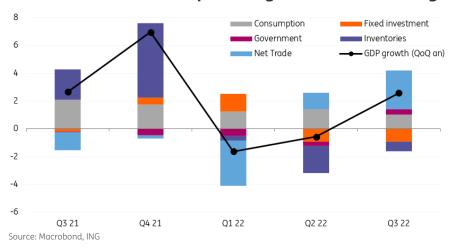
The US economy met the technical definition of a recession when GDP fell in both the first and second quarters of the year, but it didn't feel like a real downturn. Consumer spending and business capital expenditure rose, while the economy created more than 3.5mn jobs. Instead, it was volatility in trade and inventories, a legacy of the long-running supply chain problems around the globe, that led to the contraction.

Snap | 27 October 2022 1

But the picture has begun to look quite different through the third quarter. Overall GDP grew by 2.6% on an annualised basis, with net trade doing a lot of the leg work. But this decent headline reading masks some less encouraging trends beneath the surface. Consumer spending growth has slowed, albeit perhaps not as much as expected. Personal consumption grew by 1.4% in the third quarter, compared to 2% in the second.

Meanwhile, residential investment is now exerting a massive drag, given the rapid slowdown in housing transactions. This component shaved 1.4% off the overall GDP figure in the third quarter, a symptom of a housing market that is moving from a period of significant excess demand to one with modest excess supply.

## Contributions to US quarterly annualised GDP growth



### Recession will feel much more real in 2023

With the Fed signaling that it is prepared to accept weaker activity, and even tolerate recession, to get inflation under control, next week's widely expected 75bp interest rate hike won't be the last move from the Federal Reserve.

Rising borrowing costs throughout the economy and the strong dollar are creating a massive headwind. At the same time, the weak external environment is adding to the downside risks to growth, led by Europe's forthcoming energy-driven recession, and China still being constrained by Covid containment measures.

So while the US may have just exited a technical recession, the cold winds are set to get a whole lot chillier this winter and make recession feel much more real in early 2023.

Snap | 27 October 2022 2

### **Authors**

James Knightley
Chief International Economist, US
james.knightley@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

#### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.

Snap | 27 October 2022 3