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The Day Ahead: What's In a GDP Report?

GDP was hotly anticipated this week and rightfully so. The trading reaction has been the week's most volatile and has carried the most volume. Paradoxically, the 3.2% vs 2.0% reading resulted in a bond market RALLY (just the opposite of what anyone would expect from such a big beat). To understand why this is happening, we need to look more deeply into the nuances of the report.

Warning! The following table of data is obviously huge and potentially overwhelming at first glance. I've taken the liberty of highlighting a few key ingredients. The red circles are the main sub-headings of the GDP number. They add up to the 3.2% total (3.18% technically, but the report is always rounded to the nearest 0.1%). The red circles are unimportant for the purpose of our conversation today. I just wanted you to see that they are the broad categories and that the other circles are components inside those categories.

Speaking of the other circles. The blue ones (health care and inventories) show **big additions** to GDP that aren't necessarily economically impressive. For instance, consider that line 40 shows a 0.65% increase to GDP in today's 3.2% reading while the Q2-2018 report was **1.17% LOWER** than it otherwise would have been due to inventory draw-down. In other words, absent inventories, Q2-2018's GDP would have been 5.4% versus today's 2.6% (3.2 minus the inventory contribution). Strike one.

As far as health care is concerned, many economists **completely ignore** this number when it comes to gauging the strength of the economy because it is considered relatively inelastic or at the very least not nearly as indicative of demand and economic growth as other metrics.

The main heading that **speaks most to that notion of demand and economic growth** is line 2: Personal Consumption Expenditures. Here we see today's report with a paltry 0.82% compared to the heavy hitters from 2018 at 2.57% and 2.37%. In fact, 0.82 is the weakest consumption we've had in the past several years apart from Q1-2018.

Moving to line 20, food services and accommodations spending was down 0.06%. Contrast this to the higher growth reports in 2018 and 2015 when that number is over 0.30%. Food/accommodations is a **great** off-the-beaten path economic indicator, and it tends to correlate with strong consumption numbers.

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30YR VA	7.10%	+0.03	0.00

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Next, let's check out line 27, Fixed Investment. Businesses invest in structures, equipment, software/IP, etc. for all sorts of reasons. That's added together with inventory building (or draw-down) to arrive at line 26's "gross private domestic investment" heading. In general, more fixed investment and less inventory building is a **stronger sign** for the economy. Today's report is the opposite: low fixed investment and more inventory building.

April 26, 2019

Table 2. Contributions to Percent Change in Real Gross Domestic Product

Seasonally adjusted at annual rates

Line		2016	2017	2018	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	Line
	Percent change at annual rate:																				
1	**Gross domestic product**	**1.6**	**2.2**	**2.9**	**3.3**	**1.0**	**0.4**	**1.5**	**2.3**	**1.9**	**1.8**	**1.8**	**3.0**	**2.8**	**2.3**	**2.2**	**4.2**	**3.4**	**2.2**	**3.2**	1
	Percentage points at annual rates:																				
2	**Personal consumption expenditures**	**1.85**	**1.73**	**1.80**	**2.28**	**1.91**	**1.52**	**1.62**	**2.30**	**1.79**	**1.75**	**1.22**	**1.95**	**1.52**	**2.64**	**0.36**	**2.57**	**2.37**	**1.66**	**0.82**	2
3	**Goods**	**0.77**	**0.78**	**0.78**	**1.02**	**0.91**	**0.51**	**0.72**	**1.01**	**0.70**	**0.58**	**0.40**	**1.17**	**0.86**	**1.42**	**-0.13**	**1.16**	**0.90**	**0.54**	**-0.14**	3
4	Durable goods	0.39	0.48	0.39	0.65	0.35	0.21	0.23	0.46	0.71	0.50	0.13	0.60	0.54	0.87	-0.15	0.60	0.26	0.25	-0.38	4
5	Motor vehicles and parts	0.08	0.11	0.06	0.33	-0.02	-0.10	-0.01	0.13	0.34	0.25	-0.22	0.08	0.21	0.40	-0.35	0.16	-0.05	0.20	-0.49	5
6	Furnishings and durable household equipment	0.11	0.12	0.09	0.12	0.15	0.11	0.11	0.11	0.13	0.05	0.13	0.14	0.14	0.18	0.03	0.10	0.10	-0.08	-0.01	6
7	Recreational goods and vehicles	0.17	0.19	0.16	0.11	0.18	0.13	0.17	0.20	0.19	0.16	0.19	0.29	0.05	0.22	0.13	0.18	0.17	0.05	0.13	7
8	Other durable goods	0.02	0.07	0.09	0.09	0.05	0.06	-0.05	0.01	0.06	0.05	0.04	0.10	0.14	0.07	0.04	0.17	0.04	0.08	-0.02	8
9	Nondurable goods	0.38	0.30	0.39	0.37	0.56	0.30	0.49	0.55	-0.01	0.08	0.27	0.56	0.32	0.55	0.02	0.56	0.64	0.29	0.24	9
10	Food and beverages purchased for off-premises consumption	0.18	0.12	0.15	0.04	0.06	0.06	0.27	0.36	0.11	0.12	0.06	0.05	0.16	0.29	0.11	0.14	0.16	0.04	-0.09	10
11	Clothing and footwear	0.04	0.05	0.07	0.06	0.08	0.03	0.04	0.04	0.07	-0.04	-0.01	0.15	0.04	0.17	-0.15	0.18	0.20	0.02	-0.11	11
12	Gasoline and other energy goods	0.01	-0.02	-0.01	0.01	0.08	-0.03	0.14	-0.12	-0.04	-0.05	-0.03	0.11	-0.05	-0.02	-0.05	0.07	-0.06	0.05	0.00	12
13	Other nondurable goods	0.15	0.15	0.17	0.27	0.33	0.24	0.05	0.27	-0.15	0.05	0.25	0.26	0.17	0.12	0.11	0.17	0.33	0.19	0.45	13
14	**Services**	**1.08**	**0.95**	**1.01**	**1.26**	**1.00**	**1.02**	**0.90**	**1.29**	**1.09**	**1.17**	**0.82**	**0.79**	**0.65**	**1.22**	**0.49**	**1.42**	**1.47**	**1.12**	**0.96**	14
15	Household consumption expenditures (for services)	1.01	0.96	0.85	1.30	0.83	0.83	0.93	1.34	0.78	1.26	0.89	0.82	0.77	1.14	0.24	1.11	1.33	0.72	1.06	15
16	Housing and utilities	0.16	0.08	0.18	0.01	0.28	-0.03	0.17	0.35	0.26	-0.17	-0.13	0.36	0.04	0.27	0.07	0.29	0.13	0.22	0.16	16
17	Health care	0.46	0.36	0.29	0.41	0.48	0.35	0.48	0.84	-0.19	0.87	0.25	0.04	0.60	0.28	0.16	0.25	0.54	0.04	0.43	17
18	Transportation services	0.08	0.07	0.04	0.12	0.04	0.10	0.08	0.05	0.11	0.16	-0.04	0.07	0.07	0.23	-0.02	-0.10	0.00	0.09	0.14	18
19	Recreation services	0.06	0.06	0.02	0.11	-0.01	0.26	-0.04	-0.10	0.15	0.19	0.08	0.01	-0.05	-0.05	0.05	0.11	-0.04	0.04	-0.07	19
20	Food services and accommodations	0.10	0.03	0.13	0.31	0.07	0.15	0.06	0.16	0.05	-0.06	0.12	-0.05	0.04	-0.01	0.10	0.36	0.32	-0.13	-0.06	20
21	Financial services and insurance	-0.09	0.14	0.05	0.18	-0.13	0.00	-0.28	-0.19	0.16	-0.02	0.38	0.05	0.16	0.11	-0.06	-0.01	0.08	0.18	0.25	21
22	Other services	0.23	0.23	0.15	0.15	0.09	0.00	0.48	0.22	0.25	0.29	0.24	0.33	-0.10	0.31	-0.06	0.21	0.30	0.29	0.22	22
23	Final consumption expenditures of nonprofit institutions serving households	0.07	-0.01	0.16	-0.04	0.17	0.19	-0.03	-0.05	0.31	-0.09	-0.07	-0.03	-0.11	0.07	0.25	0.31	0.14	0.40	-0.10	23
24	Gross output of nonprofit institutions	0.27	0.13	0.20	-0.06	0.06	0.31	0.31	0.44	0.27	0.26	0.07	-0.19	0.25	0.08	0.09	0.44	0.43	0.07	0.07	24
25	Less: Receipts from sales of goods and services by nonprofit institutions	0.20	0.14	0.03	-0.02	-0.11	0.12	0.35	0.49	-0.04	0.35	0.14	-0.16	0.36	0.00	-0.17	0.13	0.29	-0.33	0.17	25
26	**Gross private domestic investment**	**-0.24**	**0.81**	**1.02**	**0.37**	**-0.22**	**-1.04**	**-0.31**	**-0.17**	**-0.07**	**1.30**	**0.80**	**0.95**	**1.47**	**0.14**	**1.61**	**-0.07**	**2.53**	**0.66**	**0.92**	26
27	**Fixed investment**	**0.29**	**0.81**	**0.90**	**0.63**	**0.51**	**-0.33**	**0.31**	**0.46**	**0.52**	**0.28**	**1.60**	**0.72**	**0.44**	**1.04**	**1.34**	**1.10**	**0.21**	**0.54**	**0.27**	27
28	Nonresidential	0.06	0.68	0.92	0.27	0.14	-0.53	-0.16	0.50	0.59	0.00	1.20	0.94	0.45	0.63	1.47	1.15	0.35	0.73	0.38	28
29	Structures	-0.16	0.13	0.15	0.05	-0.48	-0.70	-0.12	0.09	0.35	-0.04	0.36	0.11	-0.18	0.04	0.40	0.43	-0.11	-0.12	-0.02	29
30	Equipment	-0.09	0.35	0.44	0.05	0.43	-0.27	-0.40	0.01	0.01	0.05	0.50	0.55	0.56	0.56	0.49	0.27	0.21	0.39	0.01	30
31	Information processing equipment	0.08	0.22	0.18	0.13	0.28	0.09	-0.12	0.12	0.17	0.14	0.30	0.27	0.20	0.18	0.22	0.20	0.14	-0.06	0.02	31
32	Industrial equipment	-0.01	0.08	0.06	0.06	-0.06	0.03	-0.12	0.05	0.01	0.06	0.07	0.15	0.08	0.06	0.08	-0.04	0.11	0.07	0.02	32
33	Transportation equipment	-0.10	-0.06	0.10	0.05	0.28	-0.27	-0.12	-0.09	-0.21	-0.17	-0.02	-0.07	0.13	0.14	0.20	0.02	-0.05	0.23	0.11	33
34	Other equipment	-0.06	0.11	0.09	-0.19	-0.06	-0.13	-0.04	-0.06	0.03	0.02	0.16	0.19	0.15	0.19	0.00	0.09	0.01	0.14	-0.13	34
35	Intellectual property products	0.31	0.20	0.33	0.17	0.18	0.44	0.36	0.39	0.23	-0.02	0.33	0.28	0.08	0.03	0.58	0.45	0.25	0.46	0.39	35
36	Software	0.14	0.17	0.18	0.07	0.02	0.12	0.18	0.18	0.14	0.13	0.20	0.22	0.20	-0.05	0.31	0.22	0.17	0.18	0.24	36
37	Research and development	0.17	0.03	0.13	0.07	0.14	0.31	0.18	0.23	0.07	-0.16	0.13	0.06	-0.12	0.06	0.27	0.22	0.07	0.26	0.12	37
38	Entertainment, literary, and artistic originals	0.01	0.01	0.01	0.03	0.03	0.01	-0.01	-0.01	0.03	0.01	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.03	0.03	38
39	Residential	0.23	0.13	-0.01	0.35	0.37	0.20	0.47	-0.04	-0.06	0.28	0.41	-0.22	-0.02	0.41	-0.14	-0.05	-0.14	-0.18	-0.11	39
40	**Change in private inventories**	**-0.53**	**0.00**	**0.12**	**-0.25**	**-0.73**	**-0.70**	**-0.62**	**-0.62**	**-0.59**	**1.03**	**-0.80**	**0.23**	**1.04**	**-0.91**	**0.27**	**-1.17**	**2.33**	**0.11**	**0.65**	40
41	Farm	-0.03	0.00	-0.01	-0.06	-0.03	-0.03	-0.18	0.16	0.02	-0.11	-0.02	0.03	0.02	-0.01	-0.01	0.00	-0.04	-0.02	-0.02	41
42	Nonfarm	-0.50	0.00	0.12	-0.20	-0.70	-0.68	-0.44	-0.78	-0.62	1.14	-0.78	0.19	1.02	-0.89	0.28	-1.17	2.37	0.14	0.67	42
43	**Net exports of goods and services**	**-0.30**	**-0.31**	**-0.21**	**-0.01**	**-1.05**	**-0.21**	**-0.36**	**0.29**	**0.03**	**-1.32**	**-0.10**	**0.08**	**0.01**	**-0.89**	**-0.02**	**1.22**	**-1.99**	**-0.08**	**1.03**	43
44	**Exports**	**-0.01**	**0.36**	**0.47**	**0.48**	**-0.44**	**-0.28**	**-0.31**	**0.39**	**0.71**	**-0.44**	**0.59**	**0.44**	**0.42**	**0.79**	**0.43**	**1.12**	**-0.62**	**0.22**	**0.45**	44
45	Goods	0.03	0.26	0.36	0.54	-0.39	-0.40	0.00	0.26	0.58	-0.24	0.33	0.33	0.17	0.83	0.26	1.06	-0.72	0.10	0.37	45
46	Services	-0.04	0.10	0.11	-0.06	-0.05	0.12	-0.31	0.13	0.13	-0.20	0.26	0.11	0.25	-0.04	0.18	0.07	0.10	0.11	0.08	46
47	**Imports**	**-0.28**	**-0.67**	**-0.68**	**-0.49**	**-0.61**	**0.07**	**-0.06**	**-0.10**	**-0.68**	**-0.88**	**-0.69**	**-0.36**	**-0.41**	**-1.68**	**-0.45**	**0.10**	**-1.37**	**-0.30**	**0.58**	47
48	Goods	-0.17	-0.55	-0.59	-0.44	-0.38	0.17	0.06	-0.11	-0.47	-0.73	-0.57	-0.28	-0.29	-1.62	-0.30	0.06	-1.24	-0.06	0.56	48
49	Services	-0.11	-0.12	-0.09	-0.05	-0.23	-0.10	-0.12	0.02	-0.21	-0.15	-0.12	-0.09	-0.12	-0.06	-0.15	0.04	-0.12	-0.24	0.02	49
50	**Government consumption expenditures and gross investment**	**0.25**	**-0.01**	**0.26**	**0.70**	**0.33**	**0.12**	**0.60**	**-0.15**	**0.17**	**0.03**	**-0.13**	**0.01**	**-0.18**	**0.41**	**0.27**	**0.43**	**0.44**	**-0.07**	**0.41**	50

Taken together, **the message is clear:** this was a great GDP headline, but it had a much weaker profile of internal components than the headline suggested. As such, we can actually reconcile the bond market rally this morning. As to why stocks are rallying, what can I say... I feel like the average big bond trader is a lot more interested in these internals and the average trader contributing to the stock market's movement is just looking at the 3.2%.

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