

ECONOMY & POLICY

Yes, GDP Shrank. No, It Isn't the Start of a Recession.

COMMENTARY By Gregory Daco April 29, 2022 3:17 pm ET

...

To the untrained eye, such a GDP contraction would raise concern that the economy is headed toward a recession. Yet a closer examination reveals that the domestic economy actually heated up in Q1. That's right, final sales to domestic purchasers, which excludes net trade and inventory accumulation from the GDP calculation, rose 2.6% in the first quarter of 2022 after a sluggish 1.7% advance in the prior quarter.

And, paradoxically, the main reason GDP contracted in Q1 is that the U.S. economy grew faster than its peers. Robust private sector activity driven by solid consumer outlays, accelerating business investment, and inventory restocking pulled in imports at an extremely rapid pace while a sluggish global economy meant exports fell back. The ballooning trade deficit led to a 3.2 percentage point net trade drag on GDP growth—tied for the second largest drag since World War II.