DIVISION OF AGRICULTURE
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COVID-19 Impacts on Arkansas' Agricultural and Rural Economies

UPDATE:
Advance Estimate of 2020 Third Quarter Gross Domestic Product

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Advance Estimate of 2020 Third Quarter Gross Domestic Product

On October 29, the U.S. Department of Commerce Bureau of Economic Analysis (BEA) released its first estimate of 2020's third quarter (2020.Q3) gross domestic product (GDP). GDP is the value of the goods and services produced by the economy less the value of the goods and services used up in production – in other words, the economy's value added. Monthly GDP reports that include the advance estimate of quarterly GDP are always closely watched by the market. Every fourth year, the third quarter advance estimate comes just a few days before the presidential election and is thus subject to additional scrutiny as candidates parse the numbers to make a final appeal for the superiority of their respective economic plans. This year's third quarter report provides the most complete summary to date of the ongoing recovery from the second quarter COVID-induced economic catastrophe. It also drops right in the middle of one of the most hotly contested presidential elections in generations. As economic reports go, that's about as exciting as it gets.

The headline number in the report is, as always, change in real GDP from the preceding quarter. For the third quarter, real GDP grew at an annual rate of 33.1% from the second quarter. This is quite an impressive rebound from the 31.4% decline in real GDP in the COVID-interrupted second quarter. (Note that BEA always reports quarterly GDP changes at an annualized rate: that is, what the annual change would be if the quarterly rate of change continued all year. This facilitates comparison with historical data and between annual and quarterly data series. BEA's explanation of this reporting practice can be found here.)

Under the circumstances, which include continuing COVID-related restriction in many areas as well as continuing consumer unease with a return to normal activity, the rebound seems rather impressive. Pre-report estimates anticipated a strong number, so the report is not likely to shock the market in a positive way. The Dow-Jones Industrial Average (DJIA) was up modestly following the report, consistent with a good, but not too surprising, report.

It is important to recognize that the big percentage gain in GDP from the second quarter drop is not the same thing as a full recovery from the COVID shock. The percentage increase in the third quarter is calculated from a historically small baseline reflecting the impact of the COVID slowdown. The aggregate economy remains smaller than it was pre-COVID. This is clear with a look at the raw numbers. Third quarter GDP amounted to $18.584 trillion (again, annualized). By way of pre-COVID comparison, real GDP in 2019 amounted to $19.092 trillion. The economy therefore remains about 2.7% below its 2019 level: a strong recovery over a short time frame, to be sure, but not yet a full recovery.

Major gains occurred across just about the entire economy, with the exception of the government sector. Personal consumption expenditures increased sharply in the third quarter on both goods and services, with the largest gain on durable goods. For the most part, spending on goods, both durable and non-durable, has eclipsed pre-COVID levels by a significant margin. Spending on services, while sharply higher in 2020.Q3 than in 2020.Q2, is generally still off significantly compared to pre-pandemic levels. Transportation services, recreation services, and food services and accommodations – some of the hardest-hit sectors of the economy – are still a long way from full recovery despite a strong third quarter rebound.

Gross private domestic investment was sharply higher in the third quarter, with the largest gains on equipment purchases. Most categories of domestic investment are still below pre-COVID levels, but there are some notable exceptions. Information processing equipment and software categories are both now larger than they were before the pandemic. Given the investments throughout the economy on remote communication capabilities, that should not be too surprising.

Government consumption actually declined a bit (4.5% at an annualized rate) in the third quarter. Note that this is not the same thing as government transfers. Transfer payments do not show up directly in the GDP report, only indirectly through their impact on other spending categories.

Not surprisingly, this week's GDP report has something for both sides of the political divide to spin in these waning days of the 2020 campaign. One side can point to a relatively quick and robust recovery from an unprecedented economic shock, while the other can point to the lingering recession reflected in real GDP that remains below last year's level. Objectively, the report actually appears to be quite positive considering the challenges of 2020. The economy remains in recession. However, the lion's share of second quarter losses have been recovered despite the ongoing negative effects of COVID on economic activity and the significant slowing of direct government support to both individuals and businesses.