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provides a personal view
on topical economic issues

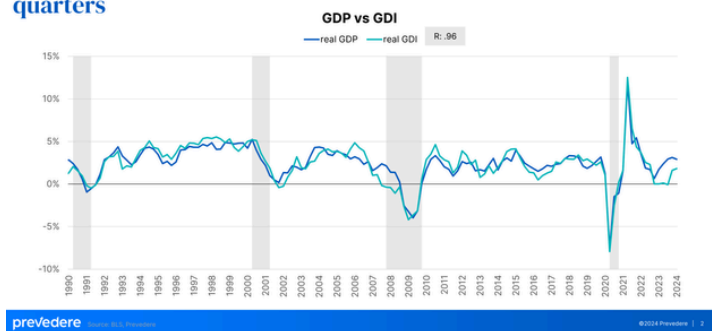
July 2024 Economic Outlook: Beyond GDP: Decoding Economic Realities

Key takeaways:

- The economy has continued to outperform projections, despite a noticeably cooling labor market and persistent inflation that, while moderating, continues to weigh on consumers.
- The divergence between high level macroeconomic indicators suggests potential vulnerabilities within consumer segments, that may be masked by resilient GDP growth.
- Different consumer segments are experiencing the economy in vastly different ways, influenced by disparities in income, sector-specific labor market challenges, and varying impacts of productivity gains.
- To be proactive in this environment, business leaders must adopt a multifaceted approach to not only mitigate risk, but also uncover key growth opportunities that may be obscured by headline economic figures.

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Gross Domestic Product and Gross Domestic Income have told starkly different stories of economic strength over the last 5 quarters

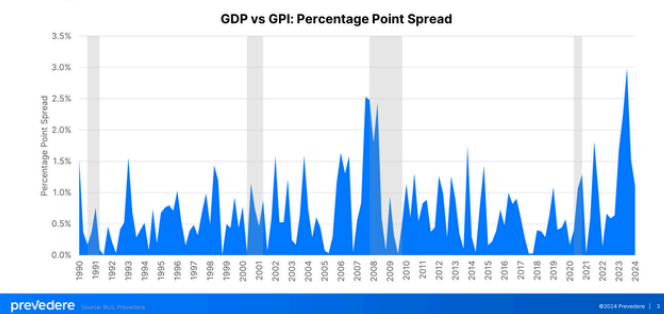


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Gross Domestic Income (GDI), which measures the total income earned in the production of goods and services, including wages, profits, and interest, should theoretically be equal to Gross Domestic Product (GDP), which measures the total value of goods and services produced within a country: every dollar spent represents income for someone else. Due to differences in data collection methods and timing, discrepancies often arise, but they are normally muted. More recently, however, we've seen a significant spread between the data sets. This gives us some much-needed nuance as we analyze the true state of the economy, as we've seen time and time again that the headline figures are often obscuring the true state of the economy, whether it's labor market strength, consumer health, or economic sentiment.

Divergences between GDP and GDI can provide early signals of economic shifts, as GDI relies much more heavily on hard data, such as tax data and unemployment claims, while GDP relies more heavily on surveys and estimates of consumer and business spending.

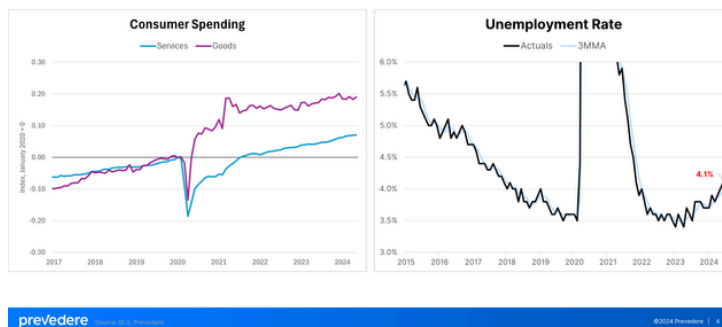
The past year and a half was marked by a unique degree of divergence



When GDI underperforms GDP, it indicates several things about the state of the economy:

- Economic weakness: Incomes fail to keep pace with overall economic output
- Labor market issues: Since GDI is an aggregation of income, slower GDI growth could reflect problems in the labor market, such as changes in income distribution across different segments of the economy, reduced employment, and/or productivity concerns
- Inflection points: Significant gaps between GDP and GDI indicate a potential inflection point in the economy

Why Does it Matter?



The discrepancy between the two measures illuminates why inflation fatigue persists, corporate sales have been facing headwinds in H1 2024, and unemployment continues to tick up despite strong GDP figures. This gap suggests potential vulnerabilities within consumer segments, that may be masked by seemingly resilient GDP growth. For businesses, understanding these subtleties is crucial. Different consumer segments are experiencing the economy in vastly different ways, influenced by disparities in income, sector-specific labor market challenges, and varying impacts of productivity gains. This divergence between top-line economic indicators and the lived experiences of households has been a recurring theme in recent years. Moving forward, an overreliance on aggregate data without considering these underlying disparities risks misguided policy decisions and business strategies. To navigate this complex environment successfully, a more nuanced approach to economic analysis is imperative.

To be proactive in this environment, business leaders must adopt a multifaceted approach. This includes developing a granular interpretation of economic data and its industry-specific implications, swiftly adapting to evolving consumer behaviors within their core customer base, and strategically implementing segment-specific tactics in areas like pricing and marketing.

By embracing these strategies, businesses can not only mitigate risks but also uncover opportunities obscured by headline economic figures. This approach will be crucial in maintaining competitiveness and driving growth in an economic climate where aggregate data alone may lead to misguided decisions.



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