

Massive Revisions to GDP Surprise To the Upside

A big part of the bearish thesis was upended last week.



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October 2024

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Recap:

1. Job market is sending recessionary undertones
2. Market valuations are at extreme levels
3. Consumer finances are stretched thin and hitting levels of distress



However, in a shocking development last week, the Q2 '24 GDP report brought absolutely massive revisions to key datapoints I have been talking about for many months as a part of the bear thesis:

Real Disposable Personal Income (DPI) revised up by a staggering 1.4 percentage points (from +1% to +2.4%). This means real DPI is now back to long-term trend.

Personal Savings revised from \$598 billion to \$1.05 trillion

Personal Savings Rate revised from 2.9% (a multi-decade low) to a much more respectable 4.8%

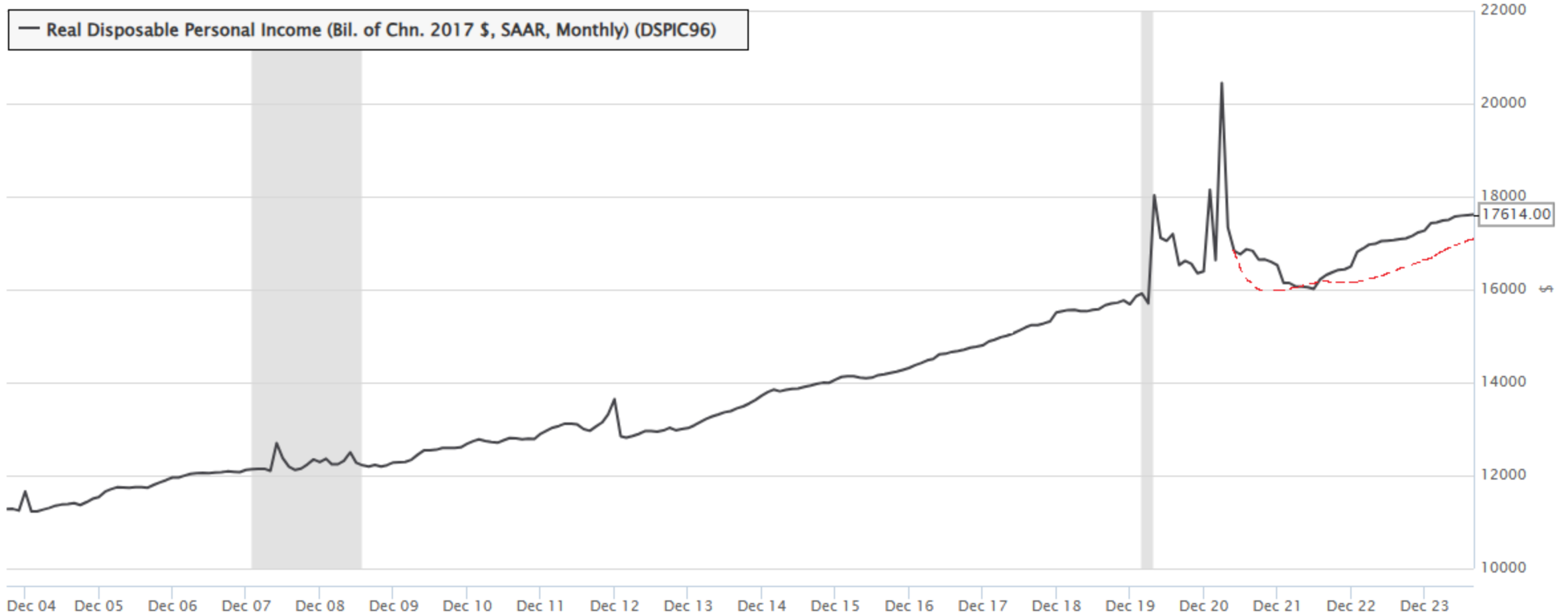
Prior to this revision, personal expenditures had been outpacing incomes, which has led to multi-decade low savings rate and puts the current pace of spending at severe risk right as unemployment makes its cyclical upswing.



This very large and shocking upward revision to real disposable personal income puts it squarely back to long-run trend growth (it was well below trend), and catapults personal savings rates back to normal levels.

This suggests the consumer is in a much stronger position than I originally feared.

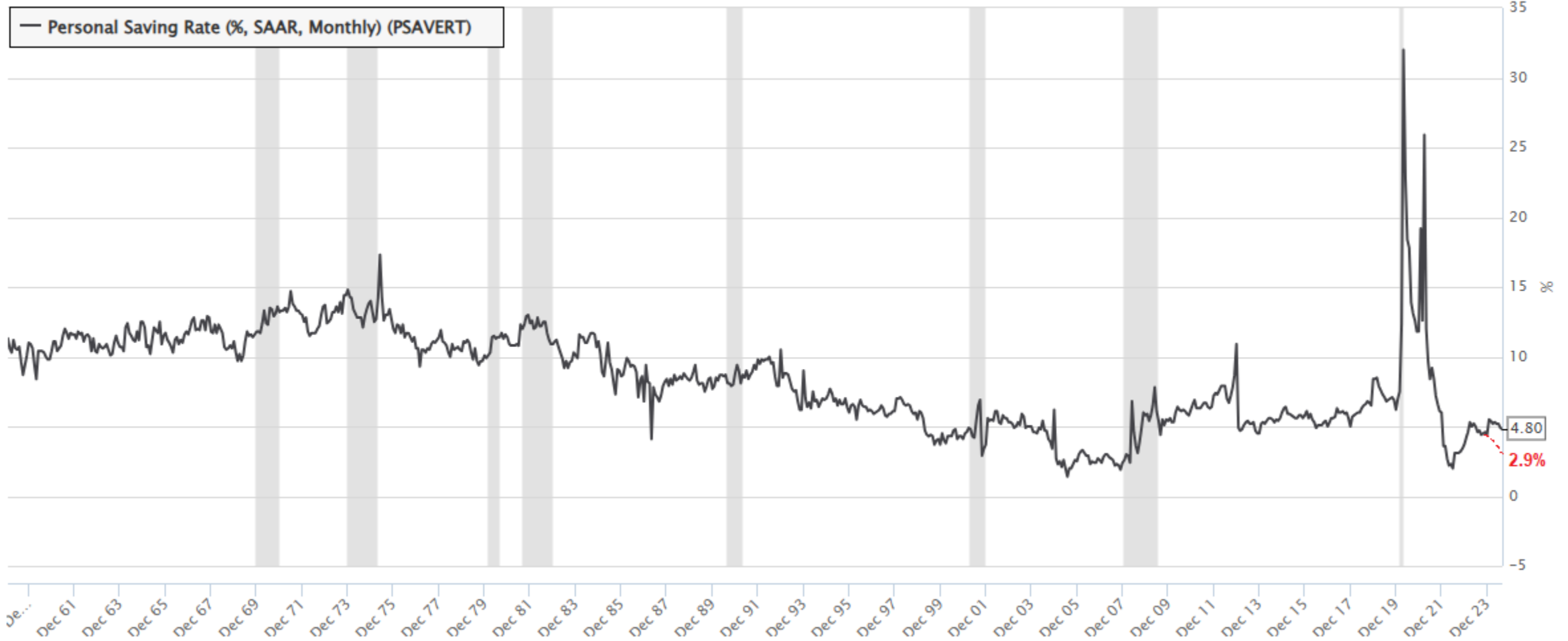
Real Incomes Revised Significantly Higher



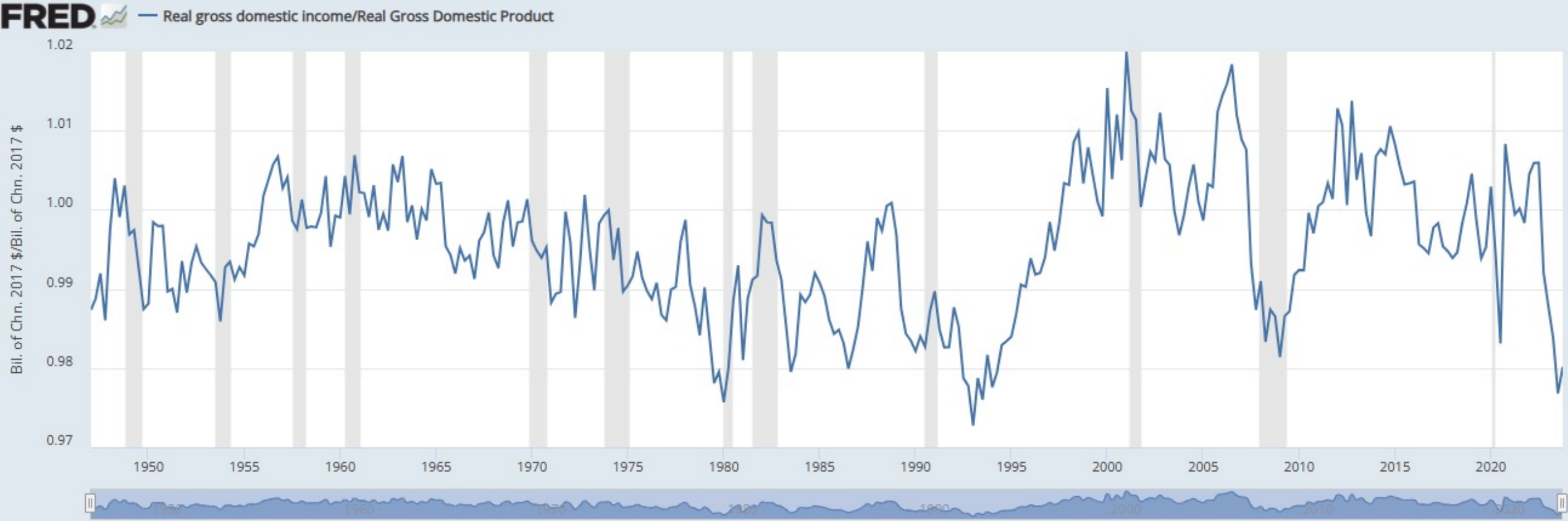
Personal Savings Revised Significantly Higher



Personal Savings Rate No Longer At Danger Levels



GDI Had Been Undermining GDP for Six Consecutive Quarters

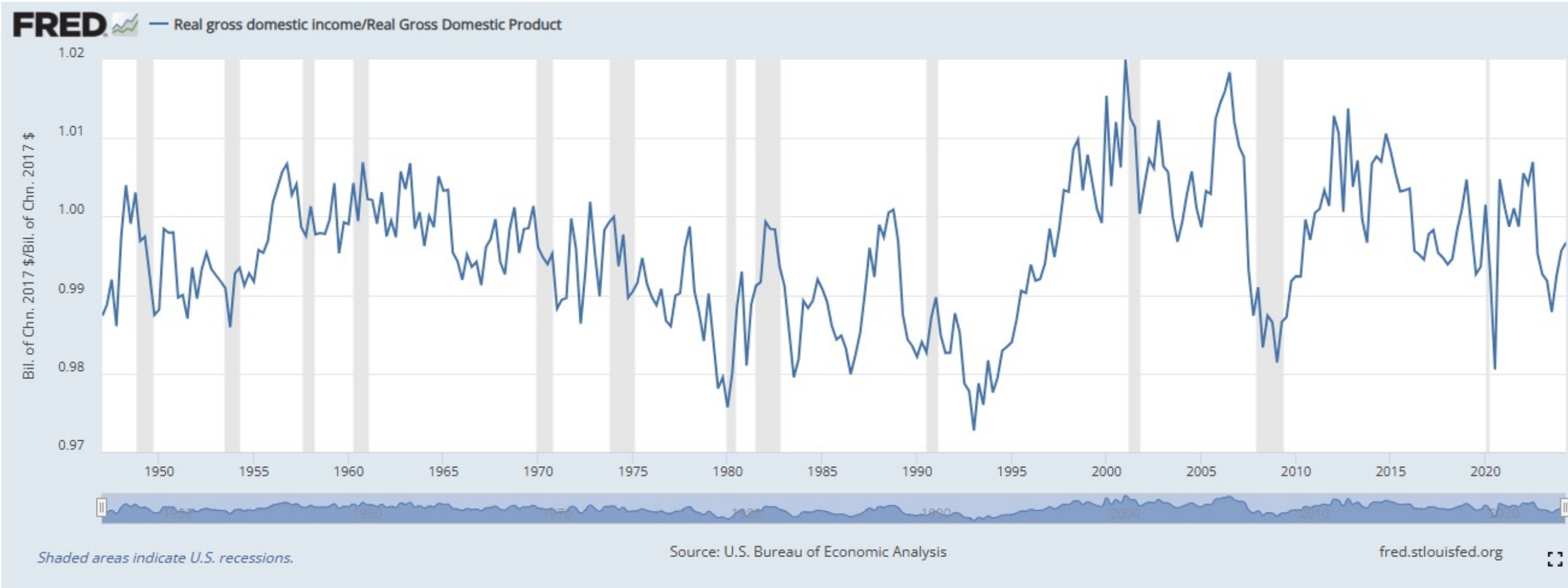


Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

fred.stlouisfed.org

But Now Revised Materially Higher





Prior to last week's revisions, real GDI YoY % growth had been significantly below real GDP for *six consecutive quarters*.

But now, after the revision, the BEA now states real GDI has been growing *faster* than real GDP for the past two quarters.



The upward revision to gross domestic income is significant, since the ratio of the two has historically provided a meaningful clue that the business cycle is about to turn from the prevailing trajectory.

With last week's revision, this is no longer the case.

YoY % Growth for GDP and GDI Before & After Last Week's Revisions



Item	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024
Real GDP	1.3%	2.3%	2.8%	3.2%	3.2%	2.9%	3.0%
Real GDI	1.0%	1.0%	1.6%	1.3%	2.9%	3.2%	3.5%

Real GDP	0.7%	1.7%	2.4%	2.9%	3.1%	2.9%	3.1%
Real GDI	0.0%	0.0%	0.1%	-0.1%	1.6%	1.8%	2.0%



Prior to the revision, personal consumption (PCE) had been outpacing personal disposable income (DPI), with DPI growth well below trend.

Spending in excess of income is not sustainable, which is why I was bearish on retail sales.

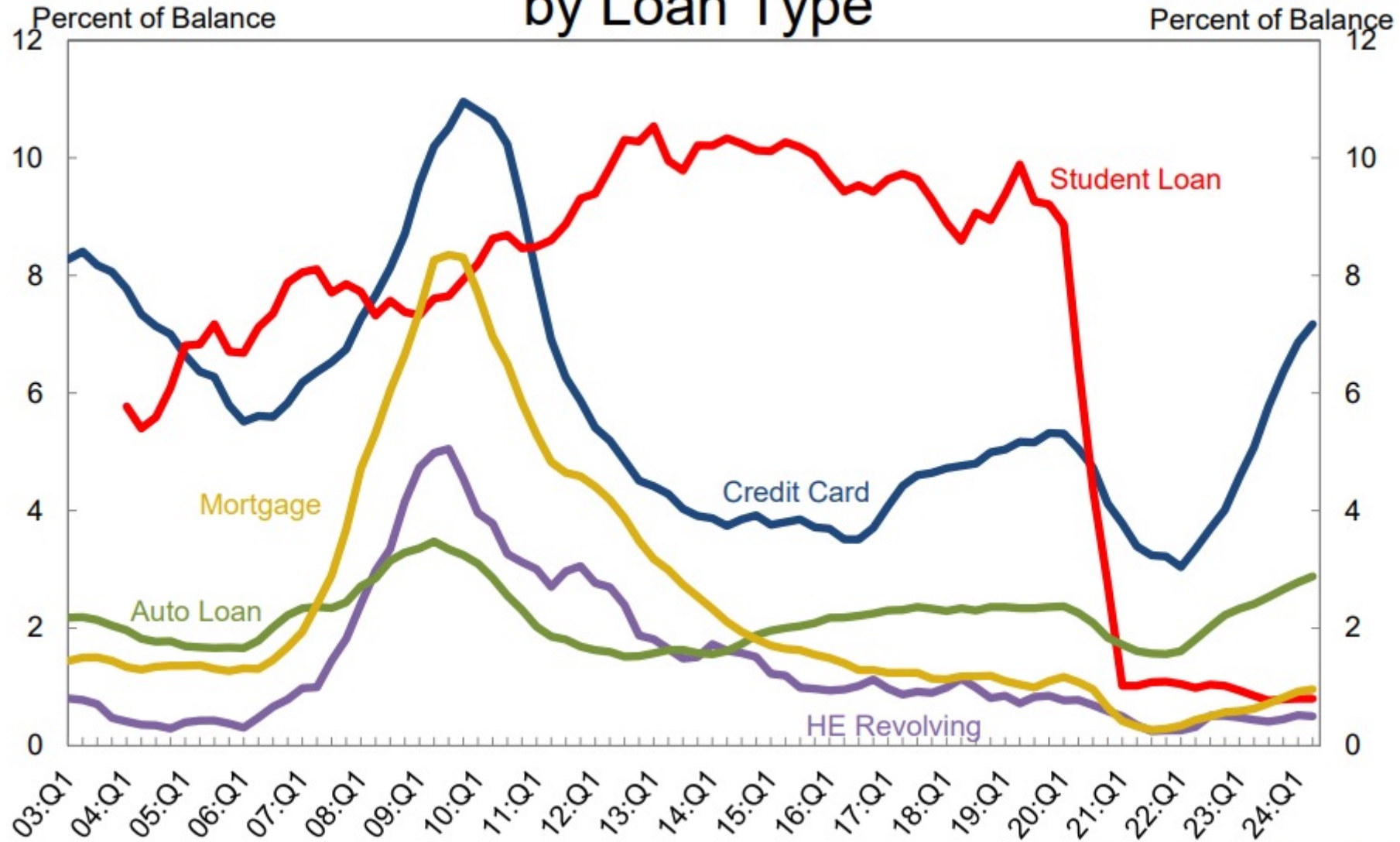
However, with last week's revision, this is no longer the case. Incomes turned out to be growing in-line with spending.



Despite this, I still remain cautious.

If consumers are still flushed with cash savings driven by incomes, why are loan delinquencies rising rapidly, and why are real retail sales still flat?

Transition into Serious Delinquency (90+) by Loan Type



Source: New York Fed Consumer Credit Panel/Equifax

Note: 4 Quarter Moving Sum
Student loan data are not reported prior to 2004 due to uneven reporting

Consumer Discretionary EPS Forecasts Continue Negative Revisions





Changes in consumer behavior are getting noticed in both the August and September ISM Manufacturing surveys, where survey respondents have noticed significant slowdown in consumer activity.

ISM New Orders Minus Inventories (since 12/31/96)



ISM Manufacturing Now in Contraction for 22 out of 23 Months

Continues to Forecast Negative EPS Revisions

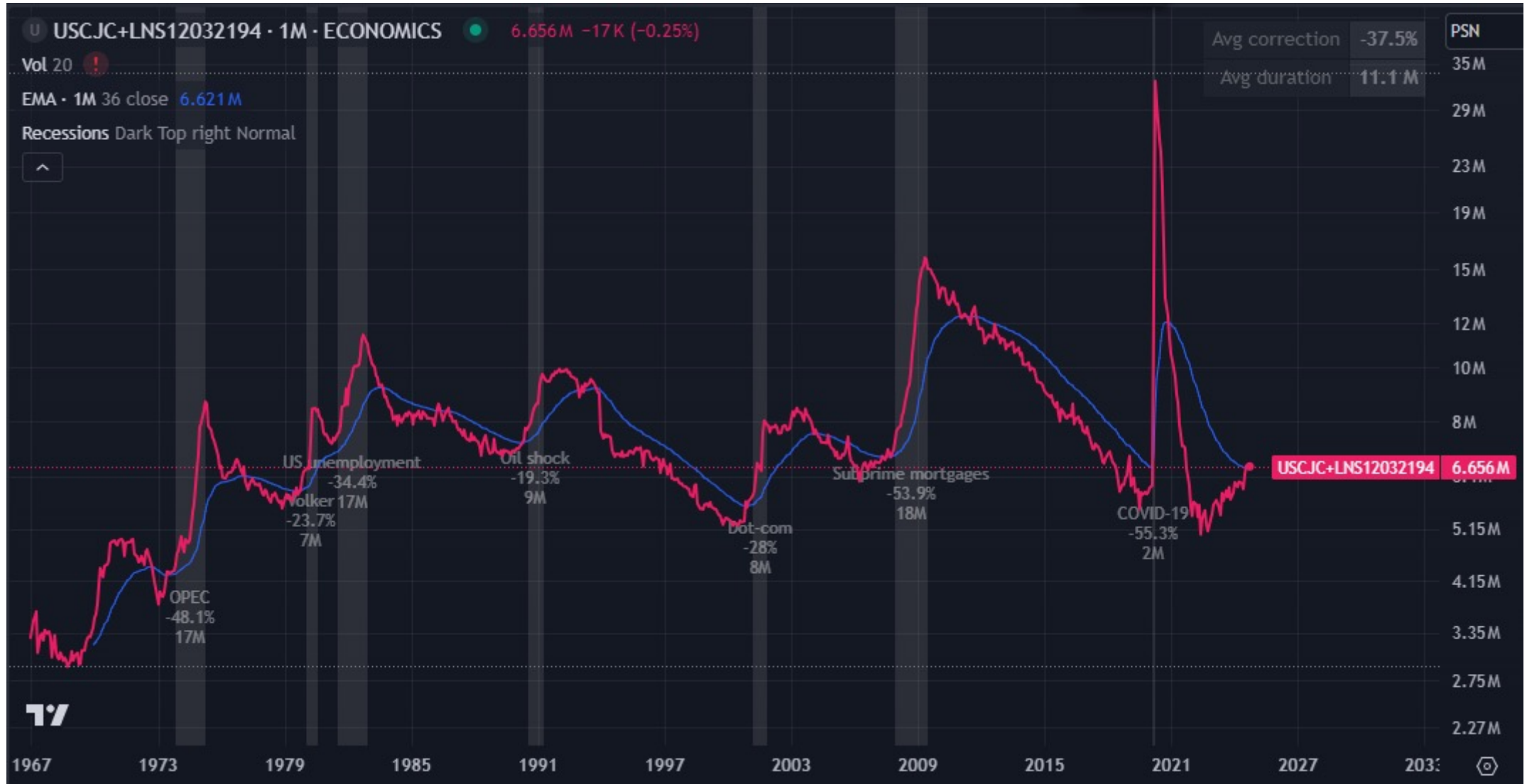




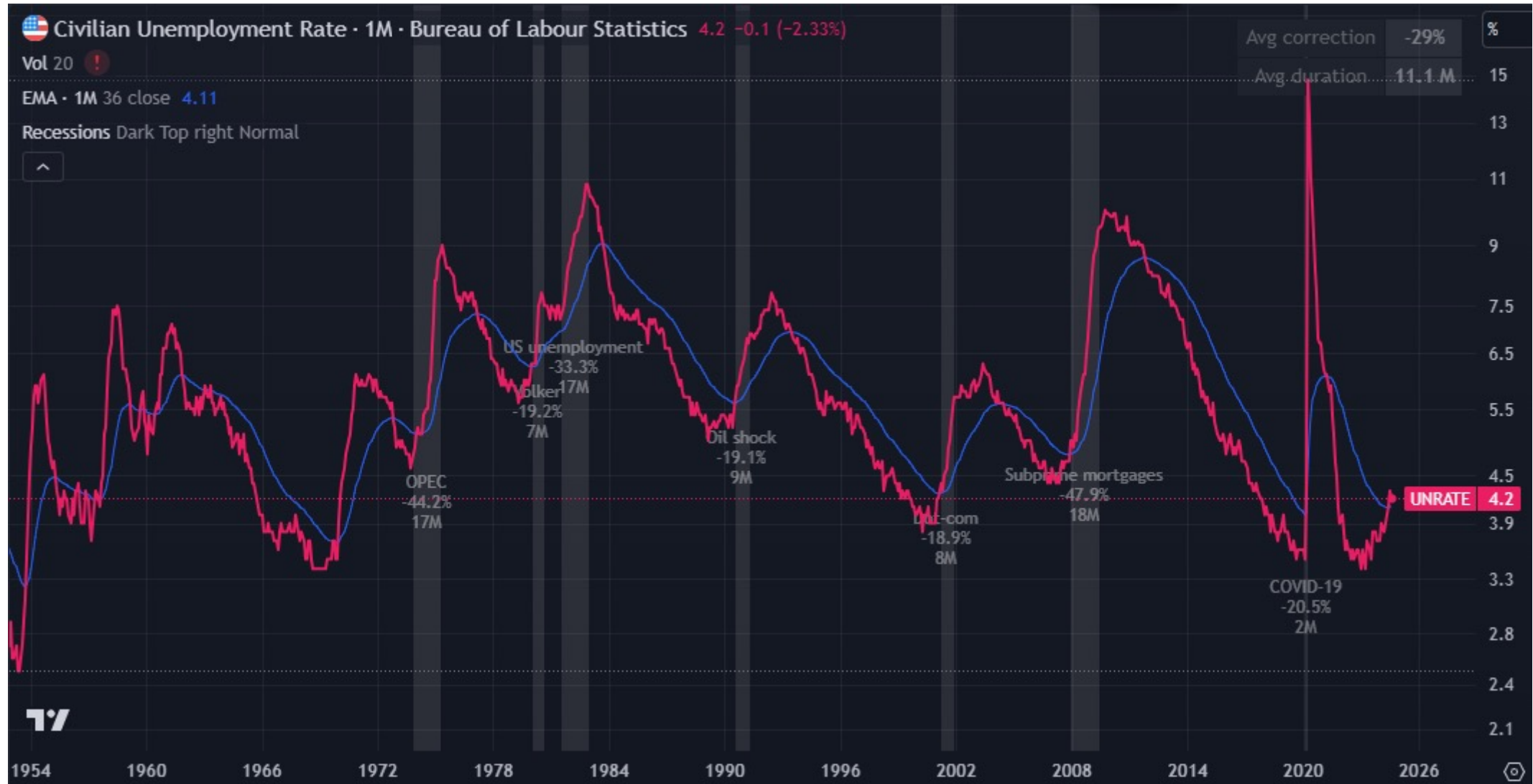
Job market has been consistently deteriorating for 12 months now,
accelerating in July



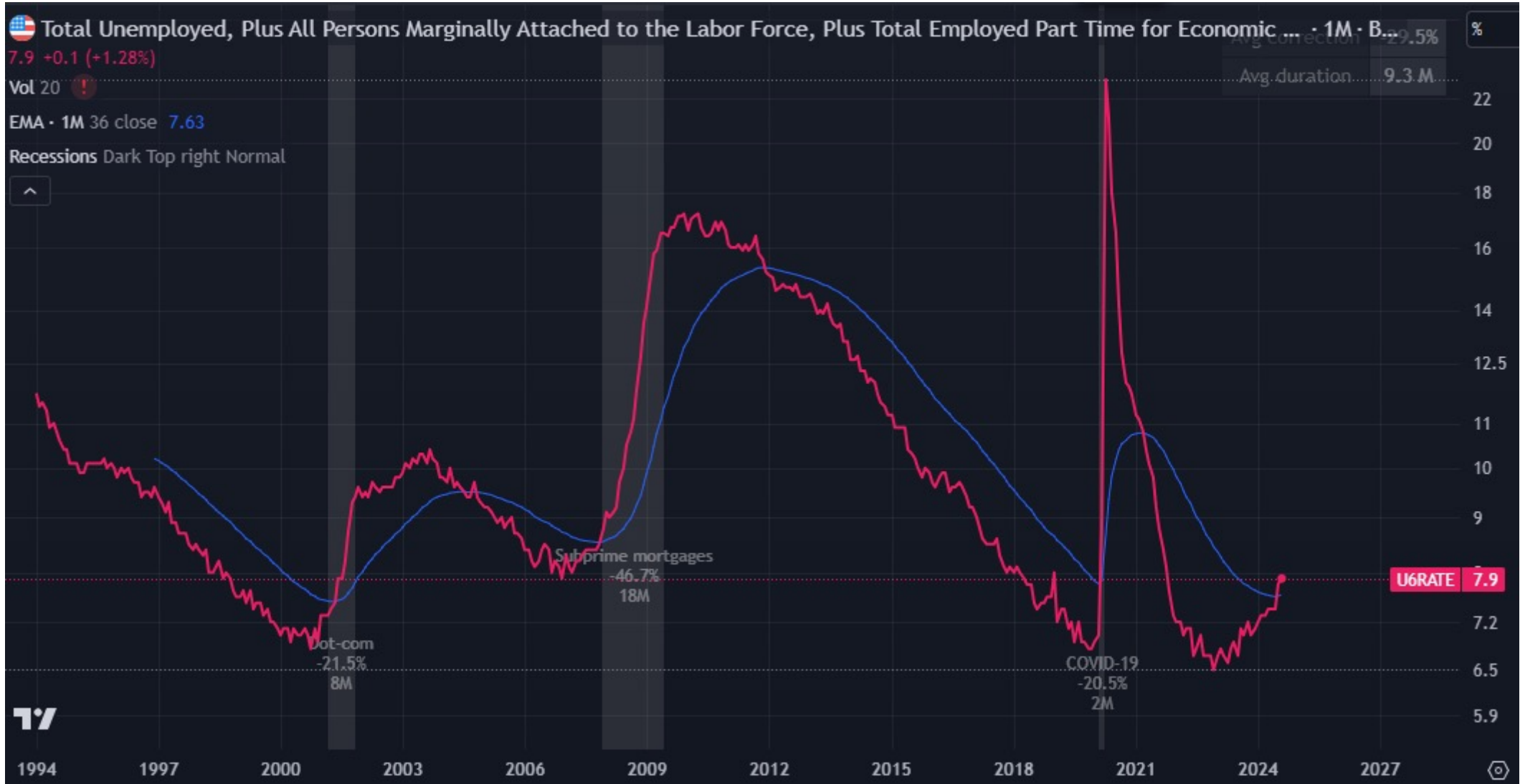
Unemployment Claims + Part-Time Jobholders for Economic Reasons Crosses Recession Threshold



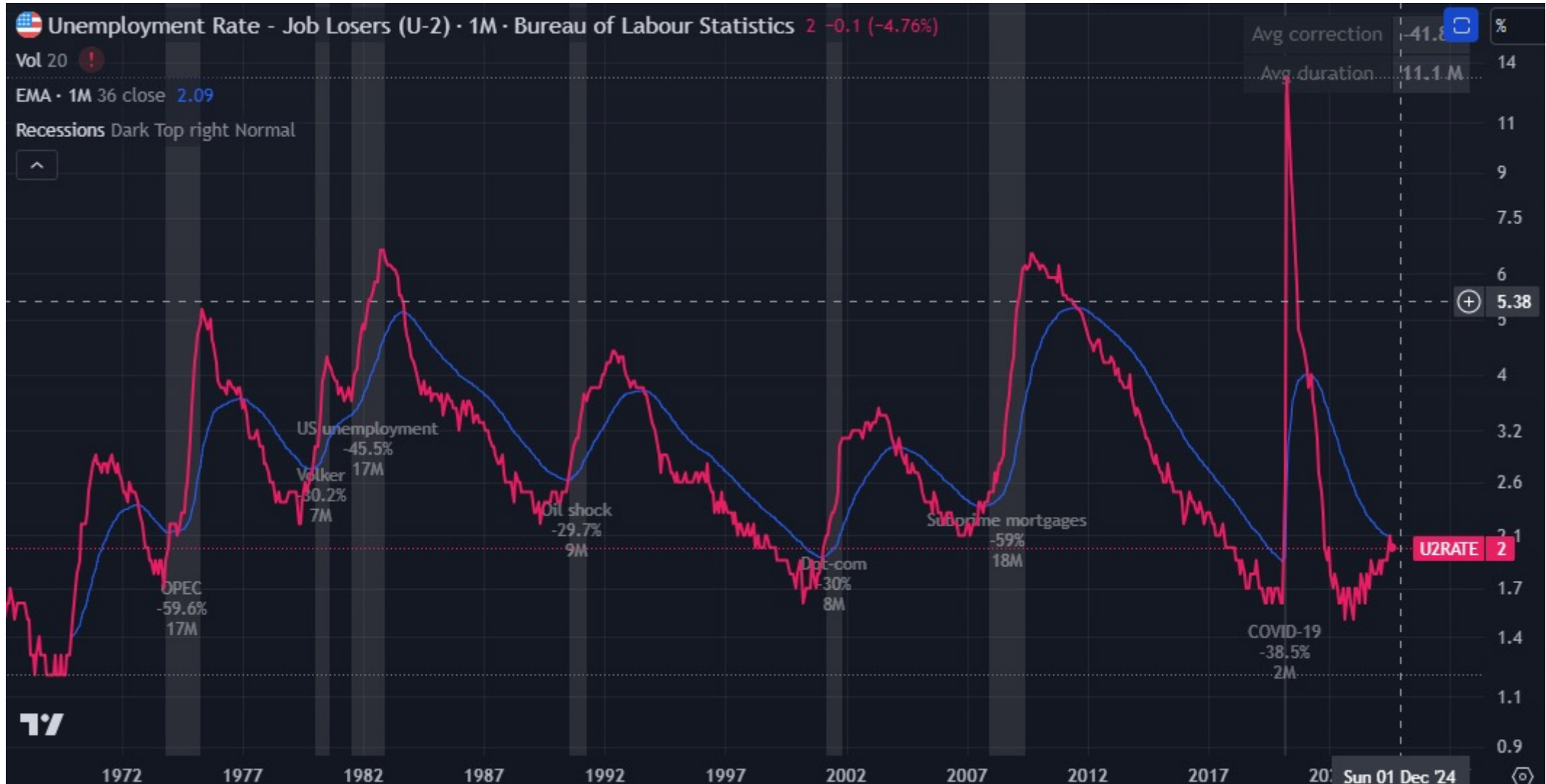
Unemployment Rate Crosses Recession Threshold



Broader Underemployment Rate (U-6) Crosses Recession Threshold



U-2 Unemployment (Strictest Definition) Has Not Yet Triggered Yet



Quality of Job Market Has Diminished Greatly

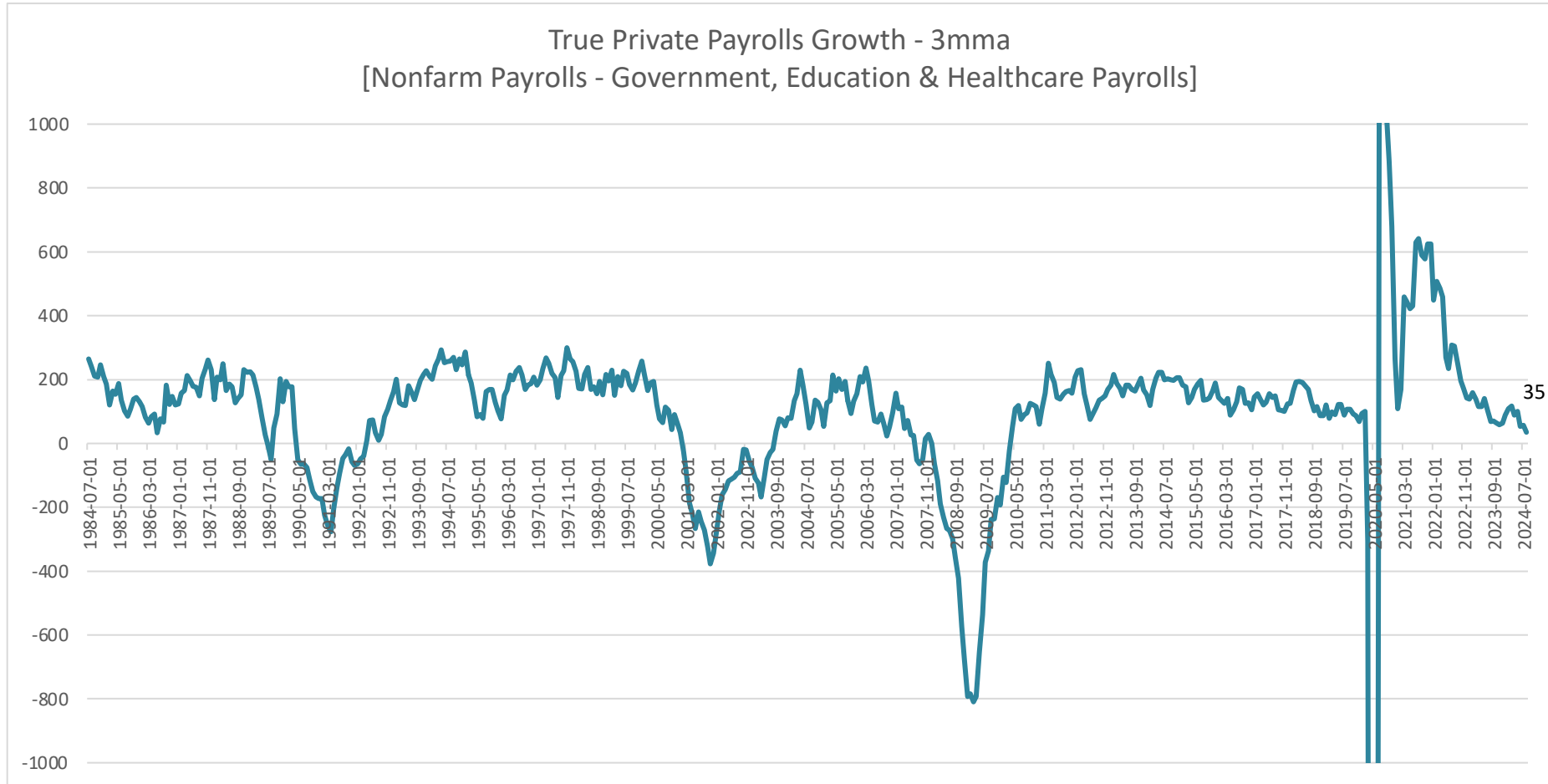


61% of all jobs created over the past 12 months came from government or government-adjacent industries

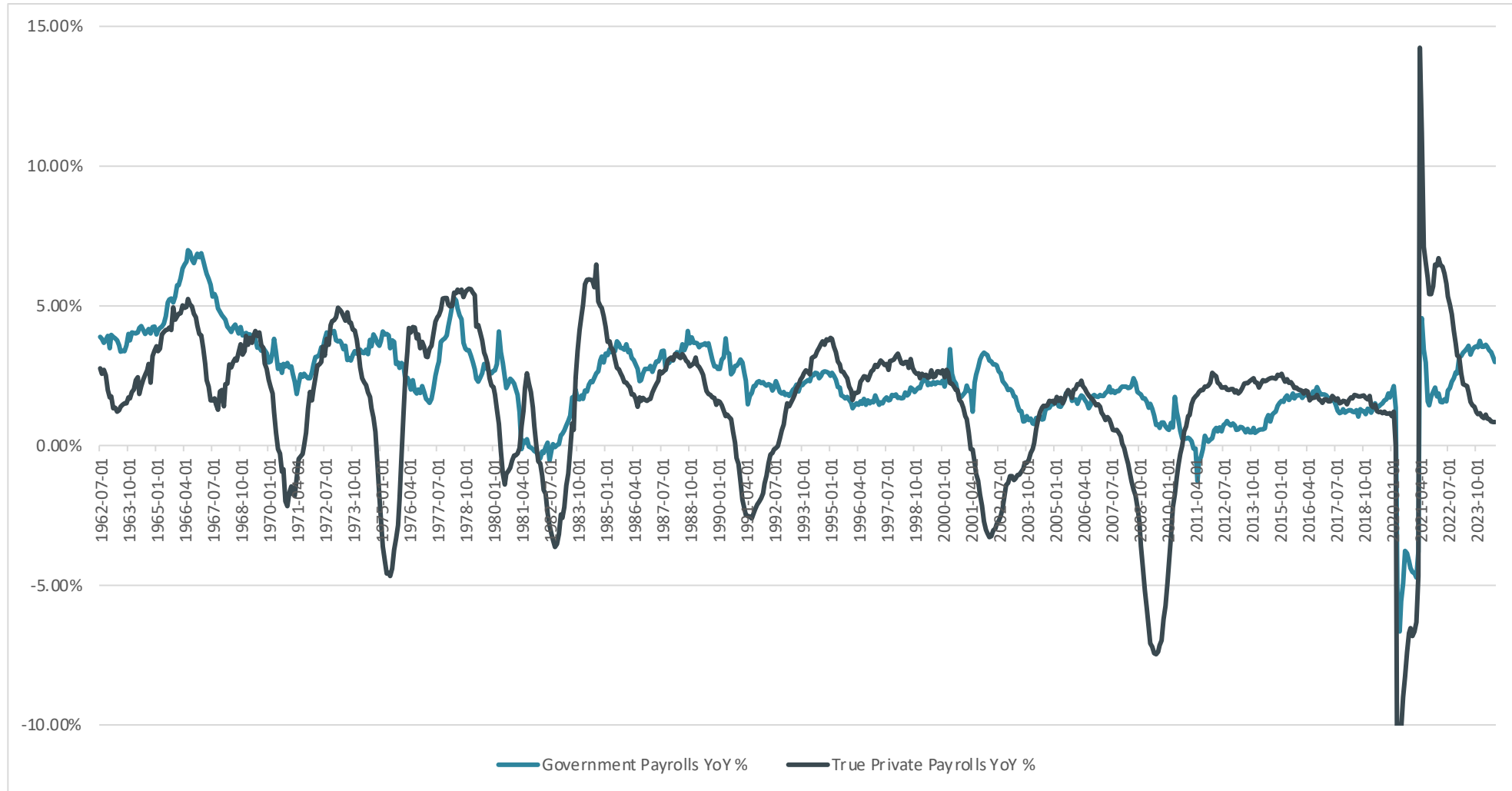
Household Employment Level Officially in Contraction

Trailing 12-month job growth has been revised lower by -20% (-450k jobs)

'True Private' Is Decelerating Sharply; Now at the Lowest Growth of any Bull Market Period in 40 Years



'Government' Sector Job Growth Sharply Outpacing 'True Private' Sector



Share of 'government' (government, healthcare & education) has on average been 15-25% of total job growth during every period of economic expansion going back 70 years

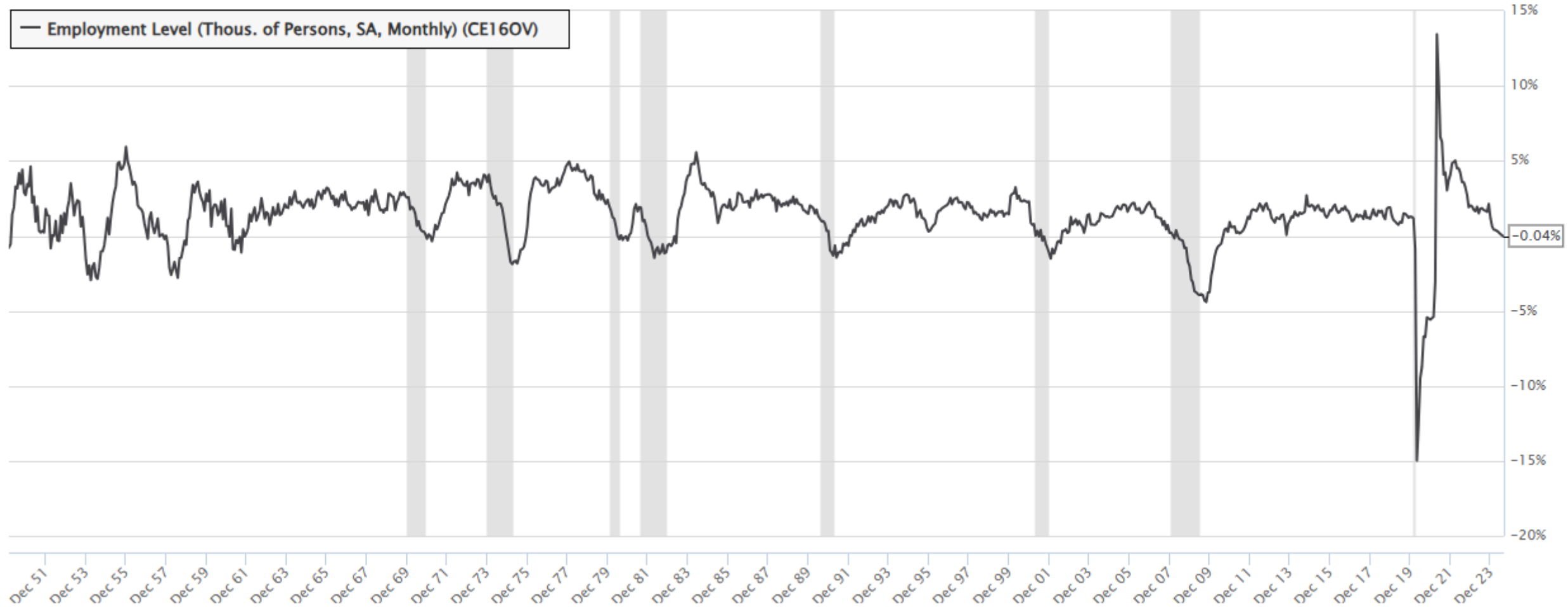


Every single time the share of government jobs has crossed 60%, we've entered recession within the following 12 months every single time with zero false positives

We're currently at 61%.

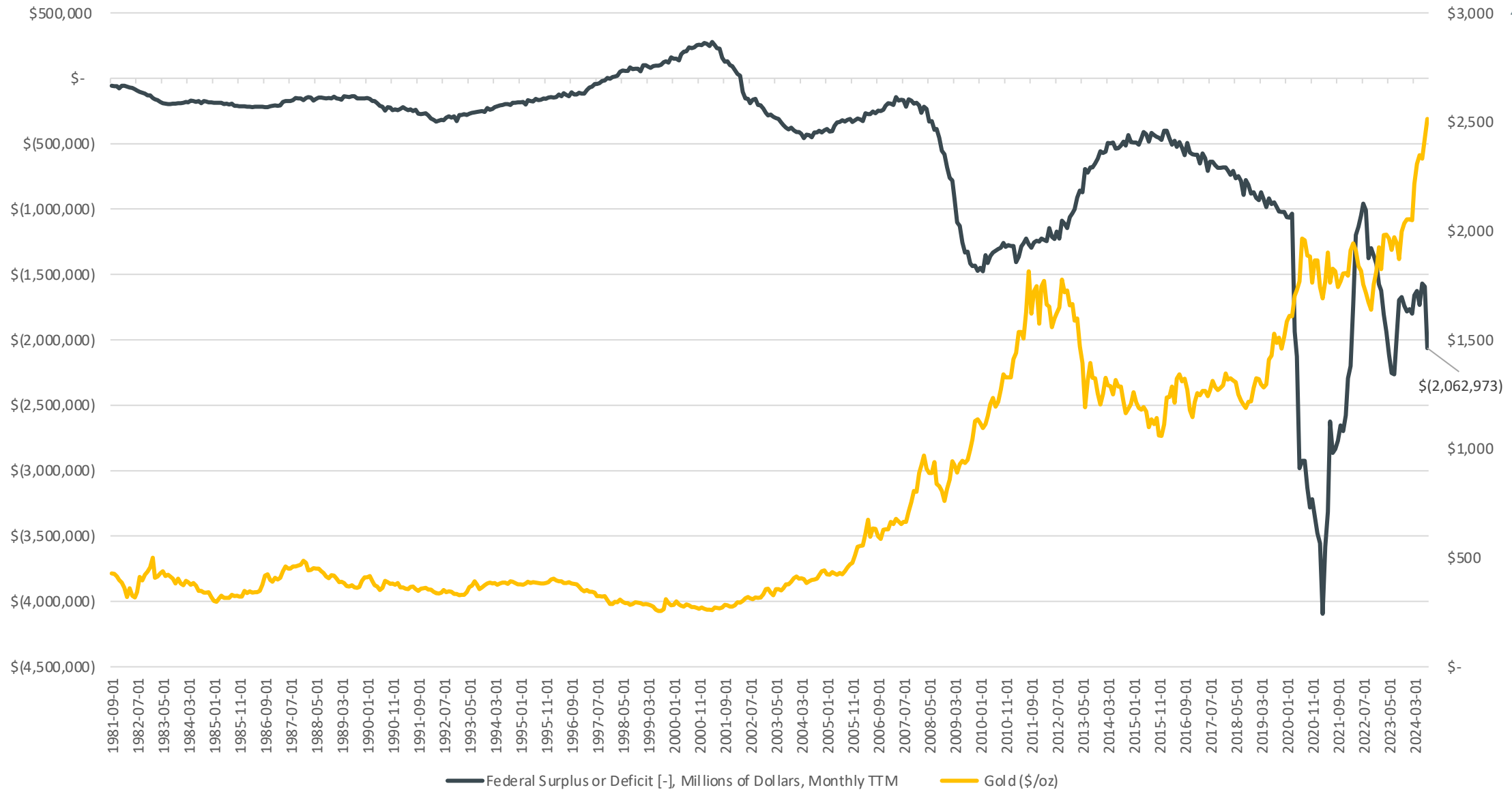
Household Employment Level in Contraction as of August

This has never occurred outside of recessions in the last 70 years of data



Gold's Inverse Relationship with the Fiscal Deficit

Gold (\$/oz) vs US Federal Surplus/Deficit (\$mil)





Either we are getting set for an epic deflationary productivity boom (prices down, employment down but production up) thanks to AI and other technologies, or we are entering a classical recession.



S&P 500 forward P/E = 22x, which ranks in the upper quartile of all observed forward P/E multiples in the past 40 years.

Growth & optimism is priced in. Soft landing thesis is fully priced in.

If we don't get that AI-fueled productivity boom and instead slip into recession, the downside risk is tremendous.

As such, the risk/reward is skewed to the downside in my view.

Zacks Earnings Certain Proxy: Recession-Resistant, Durable Moat-Protected, Low Volatility, Steady Compounders





The 4 Pillars of Quality:

Earnings stability

Earnings growth

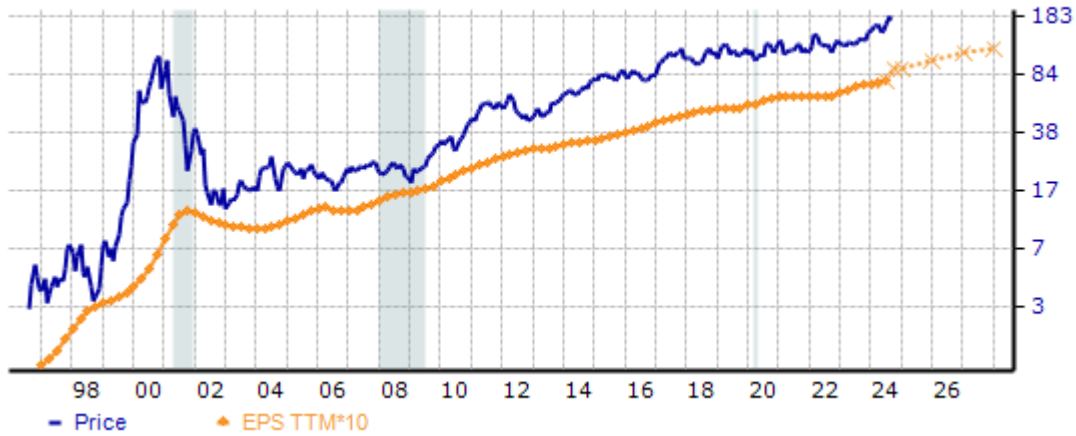
Return on invested capital

Free cash flow conversion



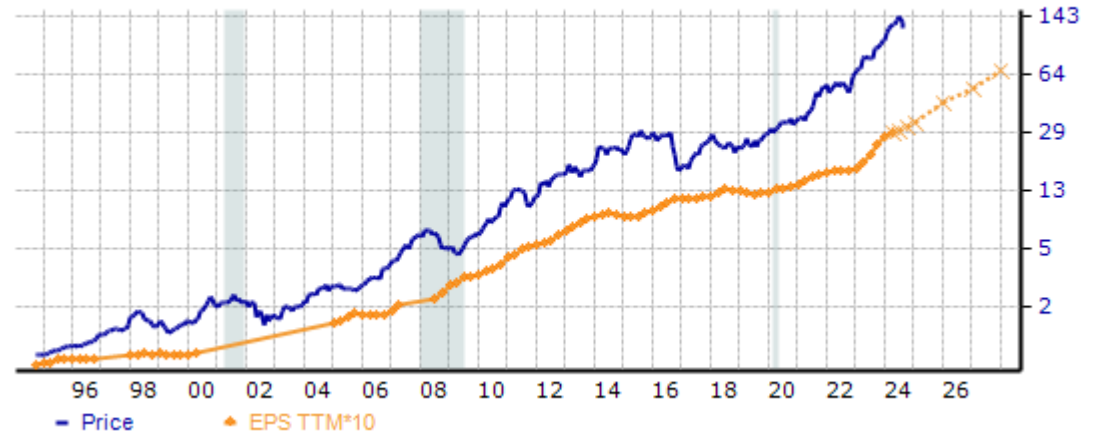
Price & Earnings CHECK PT SOFTW (CHKP)

Price \$ | EPS*10



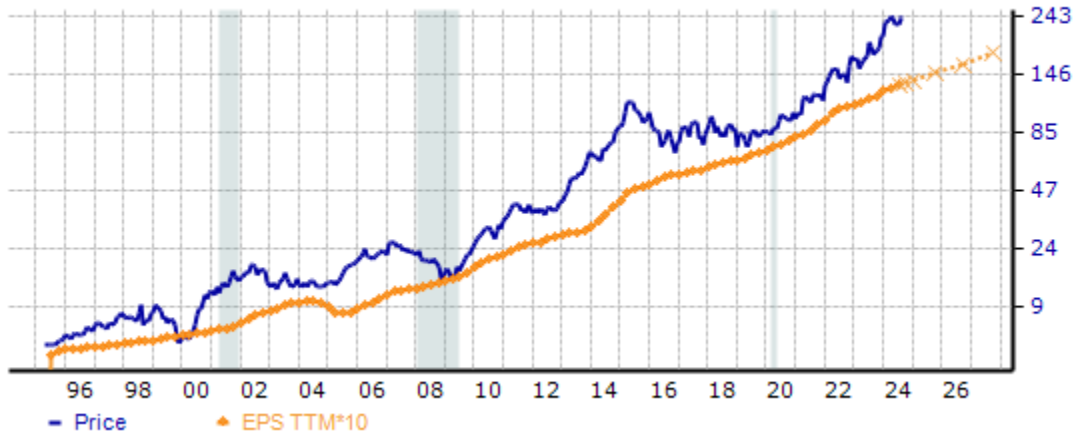
Price & Earnings NOVO-NORDISK AS (NVO)

Price \$ | EPS*10



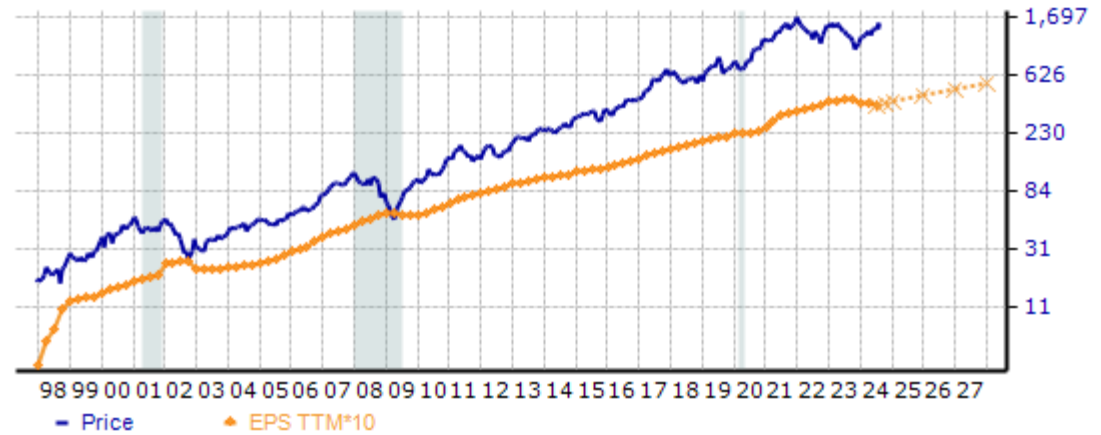
Price & Earnings CENCORA INC

Price \$ | EPS*10



Price & Earnings METTLER-TOLEDO (MTD)

Price \$ | EPS*10

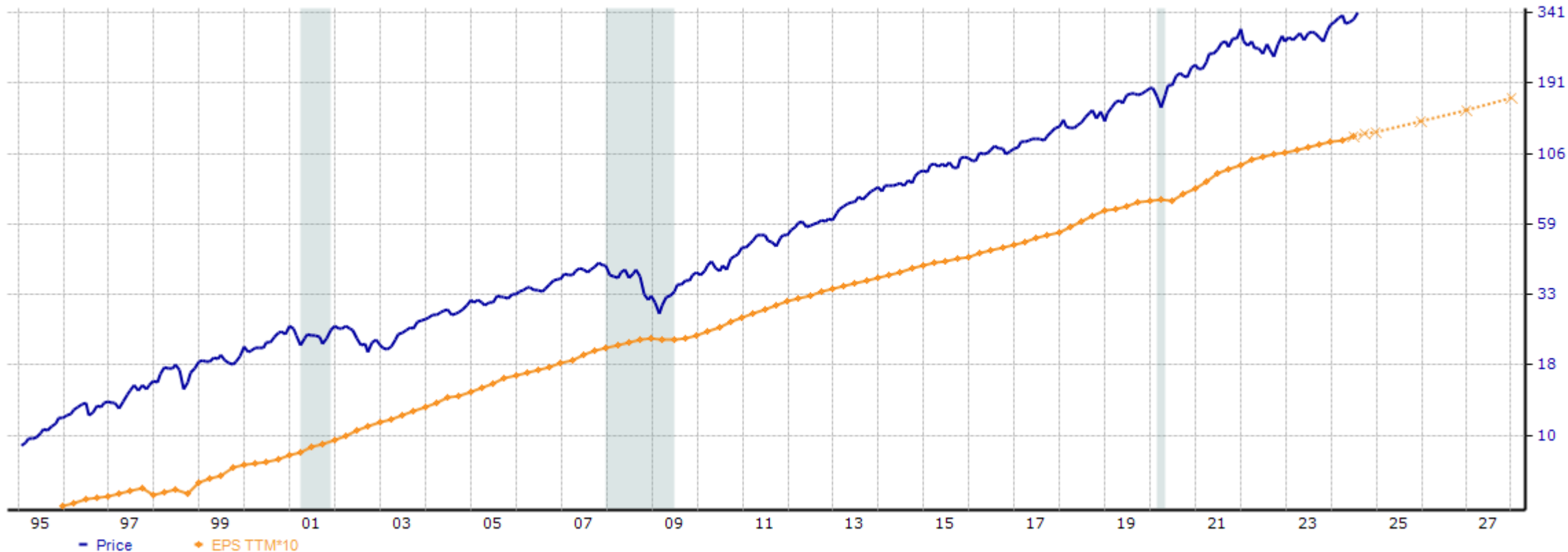


Built for Long-Term Durability



Price & Earnings
ZacksEarningsCertainProxy (ZECPE) MN-Wtd

Price \$ | EPS*10



Thank You for Attending!



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