Finance Professor: Economic Shrinkage Driven by Falling Business Investment

Duke Today Staff

Gross domestic product in the U.S. fell 0.2 percent in the second quarter, the Commerce Department said Thursday. Campbell Harvey, a finance professor at Duke University's Fuqua School of Business, said it's important to read beyond the headlines about a flatlining economy.

“This is an inflation story,” Harvey said. “The economy grew at an annual rate of 7.6% but the inflation haircut, 8.7%, wiped out all the gain.”

Personal consumption expenditure, which accounts for 71 percent of GDP, actually increased 1%.

“Personal consumption expenditure has been resilient to the poor economic sentiment,” Harvey said. “It is very unusual to have positive consumption growth in the face of negative GDP growth. The last time this happened was in 1969; it also occurred in 1947 and 1949.”

The falling GDP is almost entirely driven by business investment, Harvey said, which plummeted by 13.5% in the second quarter.

“Business investment represents less than 20% of GDP but it is volatile,” he said. “The drop reflects a drawdown of inventories that were accumulated at the end of the year. In the fourth
quarter of 2021, business investment rose at a staggering rate of 36.7% as many companies hoarded supplies.

“The slower growth is consistent with the signal from my yield curve model where a flattening yield curve predicts slower economic growth,” Harvey said. “Importantly, the yield curve model focuses on personal consumption expenditures – which are usually highly correlated with GDP.”

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