



What is Gross Domestic Product, and Why is it Important to Investors?

GDP, or gross domestic product, measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. In essence, GDP is a broad measure of the nation's overall economic activity and serves as a gauge of the country's economic health. Countries with the largest GDP are the United States, China, Japan, Germany, and the United Kingdom.

GDP generally provides economic information on a quarterly basis and is calculated for most of the world's countries, allowing for comparisons among various economies. Important information that can be gleaned from GDP includes:

- A measure of the prices paid for goods and services purchased by, or on behalf of, consumers (personal consumption expenditures), including durable goods (such as cars and appliances), nondurable goods (food and clothing), and services (transportation, education, and banking)
- Personal (pre-tax) and disposable (after-tax) income and personal savings
- Residential (purchases of private housing) and nonresidential investment (purchases of both nonresidential structures and business equipment and software, as well as changes in inventories)
- Net exports (the sum of exports less imports)
- Government spending on goods and services

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a specific period and can play a role when making financial decisions. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

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