

GDP CHATTER

There are twelve regional Federal Reserve Banks within the Federal Reserve System. The Atlanta Fed is followed for its GDPNow publication. GDPNow is not an official forecast of the Atlanta Fed, rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter.

GDP=Economic Health

GDP is short for Gross Domestic Product, which is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.

Over the last few days there has been a lot of chatter amongst market analysts about the fact that the GDPNow forecast has fallen from an annualized growth rate of +6.1% at the end of July to +0.5% as of October 19.

Given the furor about this number, it is useful to review the textbook formula for GDP:
$$\text{GDP (Y)} = \text{Consumption (C)} + \text{Investment (I)} + \text{Government Spending (G)} + \text{Net Exports ((Exports (X) - Imports (M))}$$

- "C" (consumption) is normally the largest GDP component in the economy, consisting of private expenditures (household final consumption expenditure) in the economy. Personal expenditures fall under one of the following categories: durable goods, non-durable goods, and services.
- "I" (investment) includes, for instance, business investment in equipment, but does not include exchanges of existing assets. Spending by households (not government) on new houses is also included in Investment. "Investment" in GDP does not mean purchases of financial products. It is important to note that buying financial products is classed as 'saving' as opposed to investment.
- "G" (government spending) is the sum of government expenditures on final goods and services. It includes salaries of public servants, purchase of weapons for the military, and any investment expenditure by a government. However, since GDP is a measure of productivity, transfer payments made by the government are not counted because these payments do not reflect a purchase by the government, rather a movement of income. They are captured in "C" when the payments are spent.
- "X" (exports) represents gross exports. GDP captures the amount a country produces, including goods and services produced for other nations' consumption, therefore exports are added.

INSIGHTS

- "M" (imports) represents gross imports. Imports are subtracted since imported goods will be included in the terms "G", "I", or "C", and must be deducted to avoid counting foreign supply as domestic.

Current Status of Components of GDP

Starting with Net Exports, trade is booming, but imports are growing at a quicker pace than exports, which creates a drag on the GDP calculation. The latest data from August shows that the US trade deficit widened to a record \$73.3 billion. Exports edged up 0.5% to \$213.7 billion, the highest since May of 2019, boosted by sales of nonmonetary gold and natural gas while shipments fell for autos and parts, civilian aircrafts, corn, and travel. Imports were up 1.4% to a new all-time high of \$287 billion, led by pharmaceutical preparations, toys, games, organic chemicals, transport, and travel.

Government spending (G) is currently at an impasse as Congress runs into debt ceiling issues and cannot come to an agreement on President Biden's stimulus bill.

Investments (I) are flatlined as companies are unable to source components due to supply chain problems to build new machinery and manufacture new goods. Housing starts are also slower than they should be due to supply chain shortages in building materials as well as labor shortages.

Finally, Consumption (C) demand (67% of GDP) is good, but unfortunately big-ticket items like vehicle sales have slumped due to component supply chain issues. As an example, vehicle sales have halved from 18.5 million units in April to 9.6 million units in September.

Supply Chain Effects

As readers have Covid headline fatigue, the supply chain issue is becoming the next topic beaten to death. The economic plumbing is not broken, it's just blocked up at the moment. Official GDP figures may indeed prove to be weak in the near-term, but as the supply chain pipes get unblocked, expect a strong bounce back as consumers are able to shop freely for everything from new cars to toilet paper.



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