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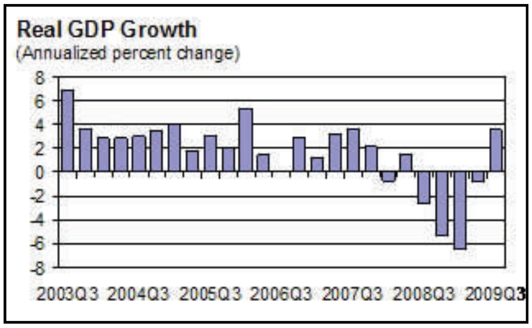
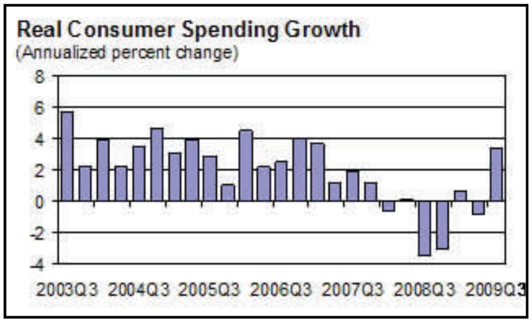
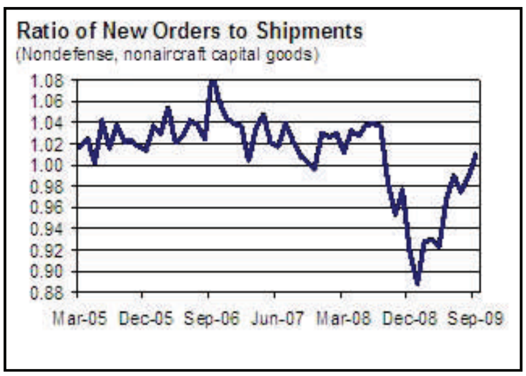
Real Estate Economic News and Insight

Economic Perspectives







SOURCE: Global Insight

How is GDP Calculated?
The formula is surprisingly simple (although the inputs are not).

Income (Household Consumption)
+
Investment (Business, Household & Government)
+
Government Consumption (Goods and Services)
+
Net Trade (Exports minus imports)
=
GDP

Economy returns to growth in Q3 with 3.5% GDP

November 6, 2009

The first estimate of third quarter Gross Domestic Product (GDP) grew at an annualized rate of 3.5% after declining for four consecutive quarters and five quarters total since late 2007. Clearly that is good news. But should we interpret the news to mean the recession has ended? Will the good times roll? No. The GDP is the top line measure of the nation's economy and the broadest measure of goods and services produced in the nation. Because it is such a broad indicator, it is widely used to gauge the general health of the economy but it is not the sole indicator of whether the nation is or is not in recession. The GDP is comprised of hundreds of components.

The good news in the report is that the economy is growing again. It also underscores the belief that the recession may have *technically* ended sometime between June and August of this year. The Business Cycle Dating Committee (BCDC) of the National Bureau of Economic Research (NBER) is a committee of academic economists headquartered at Princeton University. The committee is the official arbiter of the nation's business cycle. It does not forecast the timing of peaks and troughs but rather dates them after the fact. Indeed, the current recession officially began in December 2007 but the BCDC did not call that date until 12 months later.

The BCDC does not rely solely on the GDP to date the business cycle but rather uses a wide range of indicators over a lengthy period of time. In this case growth in the 3% range was anticipated however the BCDC made it clear in public comments that it was struggling to reconcile growing GDP against an unemployment rate that was also rising. The message is that the committee is unlikely to officially declare an end of the recession until well into 2010.

The current estimate is an "advance" estimate based upon what are admittedly incomplete data. The estimate is subject to further revision. A "preliminary" estimate will be released a month from now and a "final" estimate two months from now. Each estimate is subject to change as more information becomes available.

Looking behind the numbers that comprise the GDP, consumer spending rose 3.4% after falling 0.9% in the second quarter. Spending on durable goods (defined as those expected to last three years or more) rose 22.3% in contrast to a decrease of 5.6% a quarter earlier. Durable spending was led by spending on motor vehicles and parts which rose rose at a 56.3% annual rate due largely to the "cash for clunkers" program. Even so, motor vehicles contributed less than half of the overall consumer spending increase. At the same time, spending on non-durables (consumable items) increased 2.0% after falling a nearly identical amount a quarter earlier.

There was widespread improvement across all major consumption categories. Business equipment, software spending and residential fixed investment all returned to growth in the third quarter. Residential fixed investment turned in an impressive performance by growing 23.4% in the third quarter after falling a nearly identical amount a quarter earlier. The increase is a clear reaction to improving residential real estate activity. Non residential fixed investment, however, fell 9.0% after falling 17.3% in the second quarter. The decline is more evidence of continuing weakness in the non-residential real estate sector.

Both exports and imports returned to growth as well. Exports were up 14.7% while imports were up 16.4%. While the net result was a 0.5% drag on GDP growth, the fact that both increased is a clear sign that global trade is improving.

Inventories added 0.9% to growth simply because they were falling less sharply.

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