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Real Estate Economic News and Insight

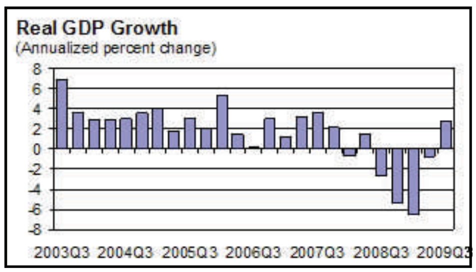
Economic Perspectives

GDP adjusted down in second estimate

November 25, 2009

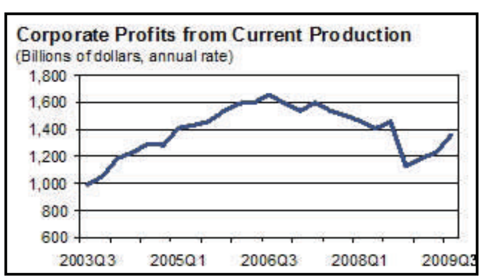
As we wrote in the November 6th issue of *Economic Perspectives,* there are three estimates of Gross Domestic Product (GDP) each quarter plus an annual revision each July. Each revision is based on more complete information. The advance estimate, which we wrote about on November 6th, was the first estimate for the third quarter. At 3.5% growth, it showed the economy coming back to life. That advance estimate, however, was revised down to 2.8% today in the *preliminary* (second) estimate. While the economy is still growing at 2.8%, the growth is not quite as robust as first thought. The revised estimate, however, is more in line with expectations.

The current revision showed that consumer spending rose 2.9% rather than 3.4% as first estimated. Business spending on structures also fell 15.1% rather than 9.0% as first thought. Both imports and exports were revised up but the import number was bigger. Since imports are a deduction from GDP, foreign trade subtracted 0.8% from the total GDP. Inventory decline was larger than first thought however its overall effect on GDP was negligible.



There was also new information in the second GDP estimate including the first estimate of corporate profits for the third quarter. Profits rose 10.6% over the second quarter but are still down about 6.7% year over year. Profits did best in the financial sector (primarily investment banking) where they benefited from very low cost of funds. The increase in profits is more likely the effect of cost cutting rather than a significant rise in sales. Net corporate profits rose to 10.7% of GDP, a rate just shy of the all time high of 10.8% reached in the second quarter of 2005. Record corporate profits bode well for future hiring.

Wage and salary incomes were revised up sharply (+$82.2 billion at an annual rate) for the second quarter as more complete information became available about supervisors pay, bonuses and stock options. The higher level of wages and salaries carried through to the third quarter. As a result, personal savings was revised up to 4.5% from a previously reported 3.4%.



A lack of capital spending, continuing high unemployment and reduced consumption are the primary components constraining GDP growth. We expect capital spending to turn positive in early 2010 and job growth to inch up later in the year. In neither case, however do we anticipate dramatic improvement in GDP.

Looking forward, we see little to change our forecast of GDP. It will probably lose a little momentum in the fourth quarter and come in between 2.0% and 2.5% due mainly to sluggish consumer consumption, housing construction starts and industrial production. A rate near 2.5% is likely for 2010. To read more, click here.