

Measuring the U.S. Economy



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Measuring the U.S. Economy

- Why does the data – and its accuracy – matter?
- Is the data updated to reflect changes in the economy?
- What can you reliably extract from the daily deluge of new and revised economic data?
- News reports and analyses: Are they based on facts or fallacies?



Why Does It Matter?

- Federal, state, and local budgets are built on economic data:
 - Even relatively small errors in the estimates for GDP (or inflation) can result in the budget estimates being off hundreds of billions of dollars over a 5-year horizon.
 - BEA's regional data is used to allocate over \$174 billion in Medicaid and other federal funds.⁽¹⁾
 - Virtually all states use BEA's regional data to set budget caps and/or project receipts and expenditures.

1. Based on Catalog of Federal Domestic Assistance, Office of Management and Budget.



Why Does It Matter?

- Monetary policy relies heavily on economic data:
 - Trend growth in GDP and inflation are the basis for the Federal Reserve Board's estimates of "Sustainable Growth"
- Larger "pocketbook" effects of economic indicators – interest rates, exchange rates, and the stock market
 - Proportion of families that hold stock has increased from less than 1/3 to over 1/2.
 - Households' use of refinancings, home equity and variable rate loans, and use of installment credit has experienced similar increases.

Source: Federal Reserve Board, Investment Company Institute, and Securities Industry Association.



Maintaining Accuracy and Relevance

- 2003 Comprehensive Revision – new measures for:
 - Banking and brokerage services
 - Insurance – from actual claims to expected claims
- Other recent changes in order to keep up with changing economy:
 - Computer software investment
 - LAN, semiconductor, and computer prices
 - Employee stock options and derivatives
 - Chain-type indexes



What Does It All Mean?

- Gross Domestic Product
 - Organizes stream of volatile, partially incomplete – and sometimes overlapping and contradictory – data into a consistent and comprehensive picture of the economy
 - Provides consistent data on production, incomes, inflation, investment, consumer spending, government, and savings
 - Helps put monthly volatility and trends into perspective
- Revisions and Accuracy
 - Timeliness vs. accuracy
 - Getting the overall picture right: direction of change, acceleration and deceleration, sources of growth, strength of growth, and trends



What Does It All Mean?

- “Records” and importance of relative data
 - Federal budget deficit of \$480 billion – the largest ever⁽¹⁾
 - Federal deficit of 4.3% of GDP largest since 4.7% for 1992 (1983 was 6.0%; all-time record was 30.3% in 1943)⁽¹⁾
 - International trade deficit often reaches level high every month. Currently, it is 4.4 percent of GDP for 2003:III (all-time record was 4.7 percent in 2003:II)

Source: Bureau of Economic Analysis and Congressional Budget Office.

1. Congressional Budget Office, “The Budget and Economic Outlook: An Update,” August 26, 2003. Estimate based on FY2004.



Facts or Fallacies?

- News stories and economic analysis
 - Data vs. anecdotes
 - Dangers of extrapolating from anecdotal evidence
 - Overemphasizing the positive or the negative
- Fitting data to the explanation
 - Problems of samples being representative
 - Subjectivity
- Public opinions – and sometimes policies – based on fallacies rather than data
 - Importance of checking your facts



Facts or Fallacies?

- U.S. multinational companies are exporting jobs to low wage countries.
- BEA data based on mandatory reports show that:
 - The share of U.S. multinationals production and employment in the United States has remained roughly constant at 75 percent for over three decades.
 - Over two-thirds of U.S. foreign direct investment is in high-wage countries.



Facts or Fallacies?

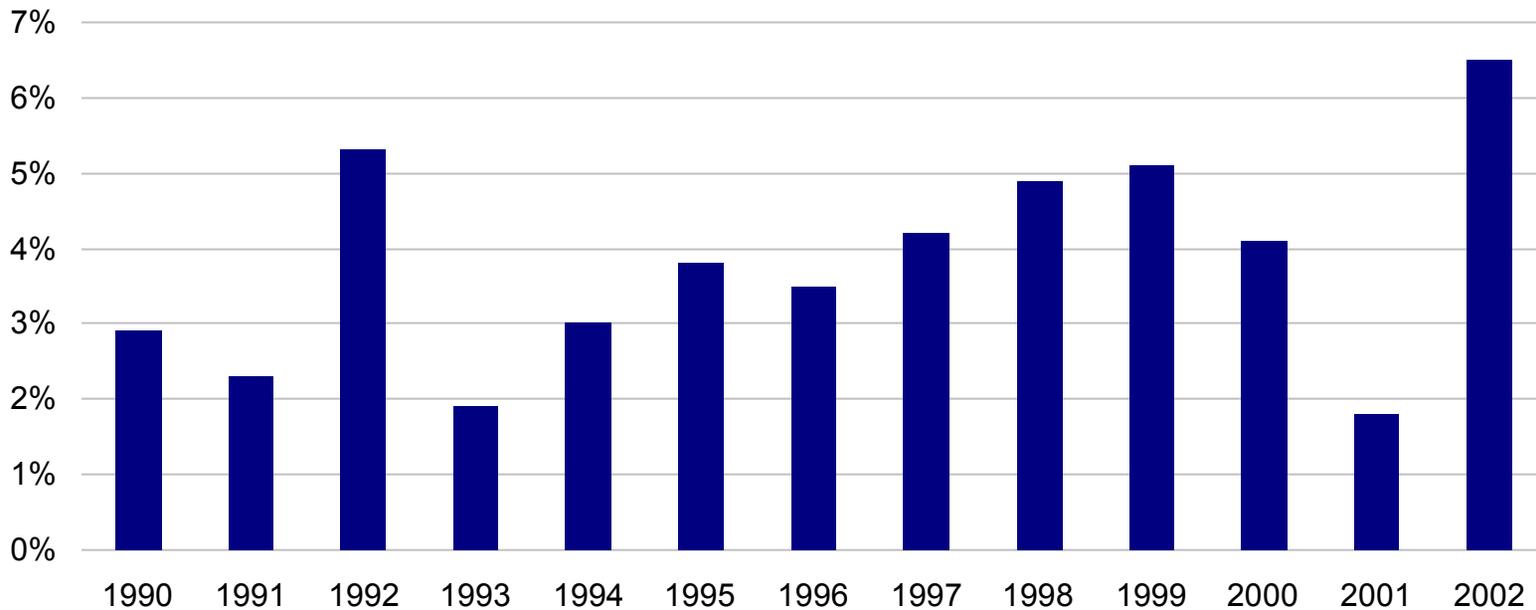
- The U.S. manufacturing sector is shrinking, and the U.S. is no longer competitive in world markets.
- Yet in fact:
 - U.S. manufacturing grew at a 4.3 annual rate during the latter half of the 1990s, while services grew 5.3 percent.
 - U.S. manufacturing productivity is rising at the rate of 4.1 percent a year (2000-2002).
 - U.S. productivity – as measured by purchasing power parity GDP per capita – is higher than that of Canada, Japan, Germany, the U.K. and most other developed countries.

Source: Bureau of Economic Analysis and Bureau of Labor Statistics.



Facts or Fallacies?

Changes in Productivity in the Manufacturing Industry, 1990-2002



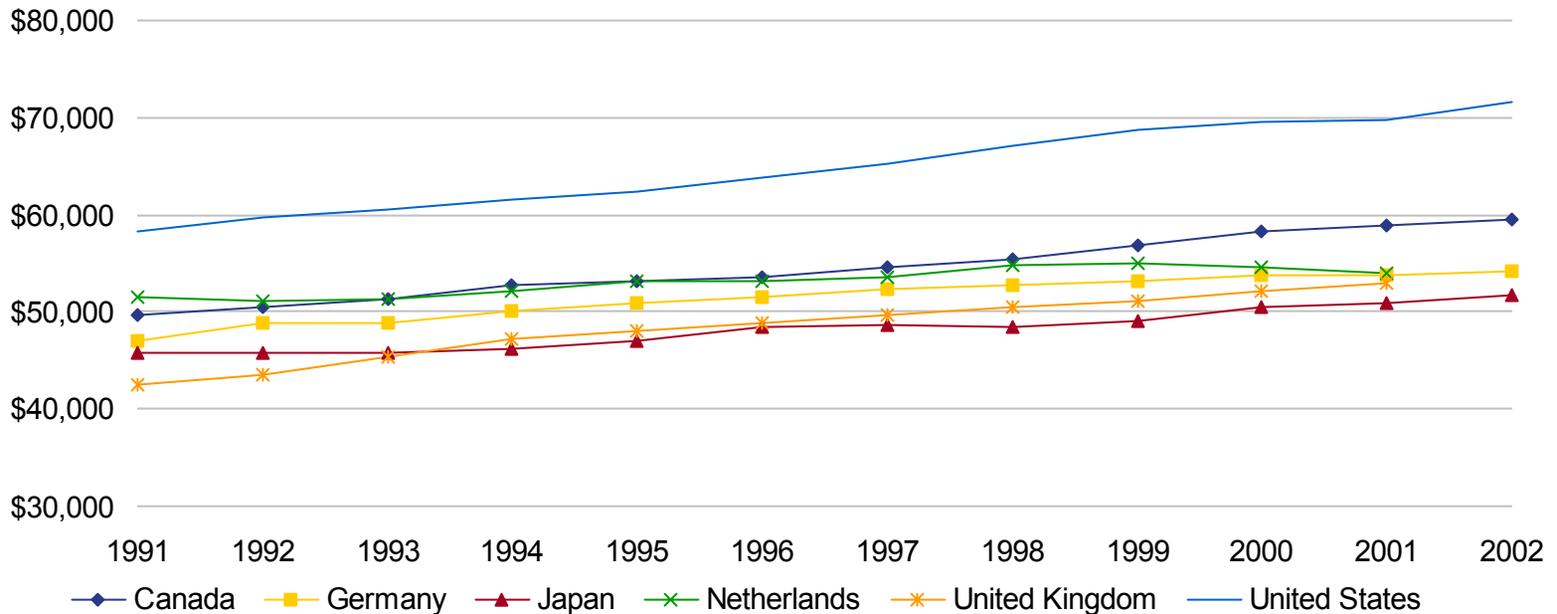
Source: Bureau of Labor Statistics.



Facts or Fallacies?

U.S. Productivity Compared to Other Developed Nations

Real GDP per Employed Person (1999 U.S.\$), 1991-2002



Source: Bureau of Labor Statistics report, "Comparative Real Gross Domestic Product Per Capita and Per Employed Person Fourteen Countries," July 29, 2003.



Facts or Fallacies?

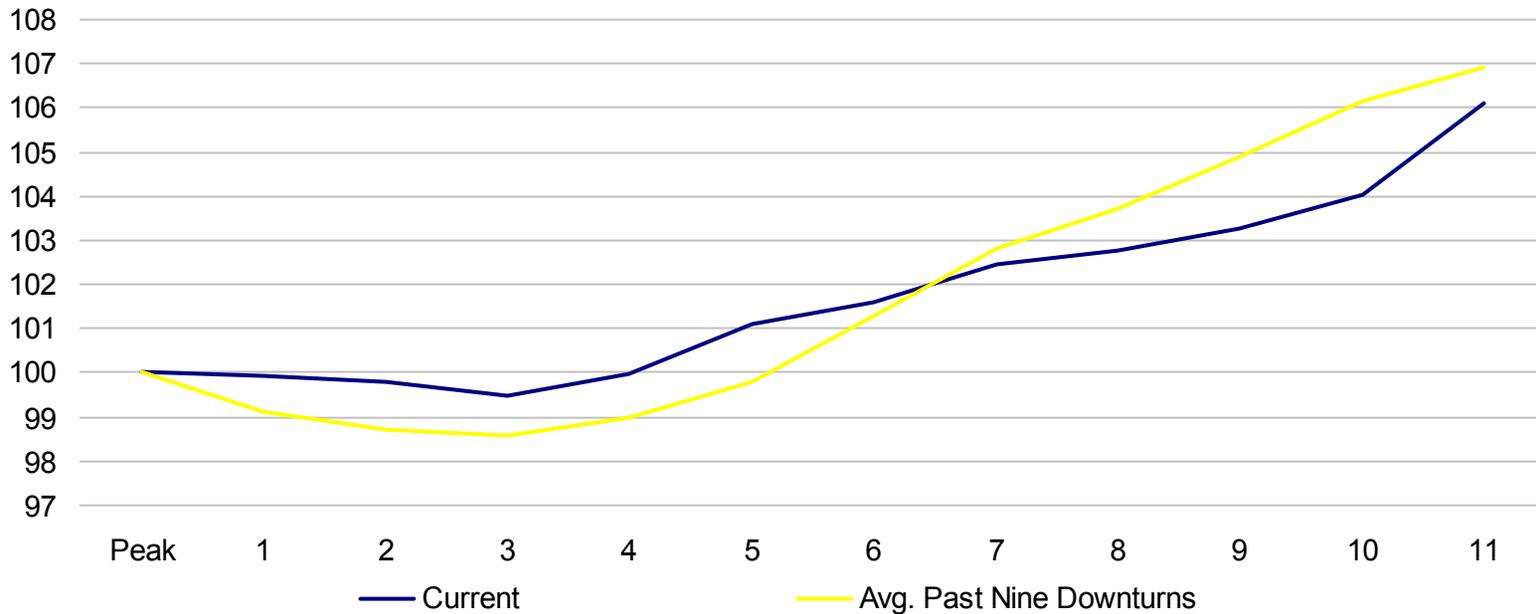
- How bad was the recent economic downturn and current recovery?
 - Recession mild by historical standards
 - It was a major downturn by historical standards
 - Both answers are right – understanding why is important to understanding where the economy will go from here and to policy
- Real GDP contracted by 0.7 percent during last cycle versus 2.8 percent during the past nine business cycles
 - However, growth from prior peak has been slower than past recessions

Source: Bureau of Economic Analysis and Bureau of Labor Statistics.



Facts or Fallacies?

GDP Growth from Previous Peak



Source: Bureau of Economic Analysis.



Facts or Fallacies?

- Employment has also been mixed
- Current unemployment at 5.7 percent and was never higher than 6.3 percent, well below 8-10 percent recorded in prior recessions
- Aggregate job growth, however, fell by more than past downturns
 - 2.4 million fewer jobs than 2000:IV
 - Household net worth still 2.2 percent lower than 1999⁽¹⁾
- These apparently contradictory data explain a lot about U.S. productivity growth and future prospects for consumer and investment spending

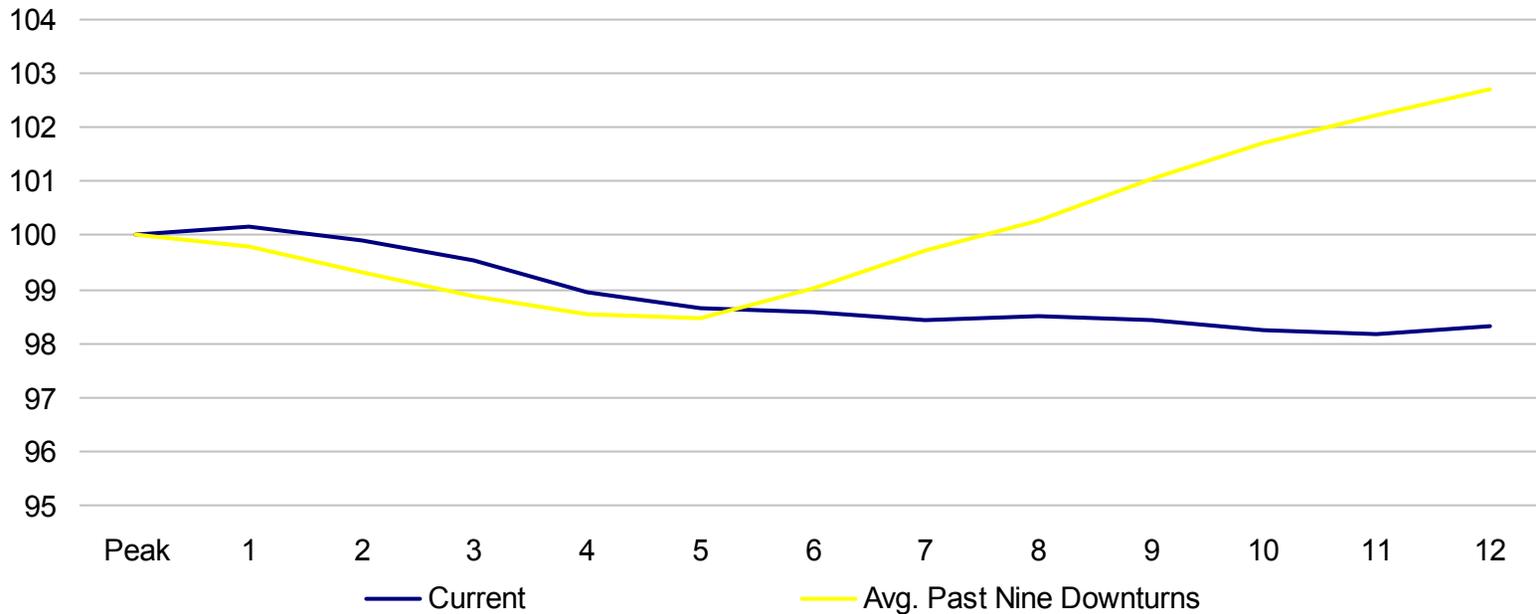
Source: Bureau of Labor Statistics and Federal Reserve Board.

1. Flow of Funds Accounts (1999:IV versus 2003:II), September 9, 2003.



Facts or Fallacies?

Employment Levels From Previous Peak – Payroll Survey

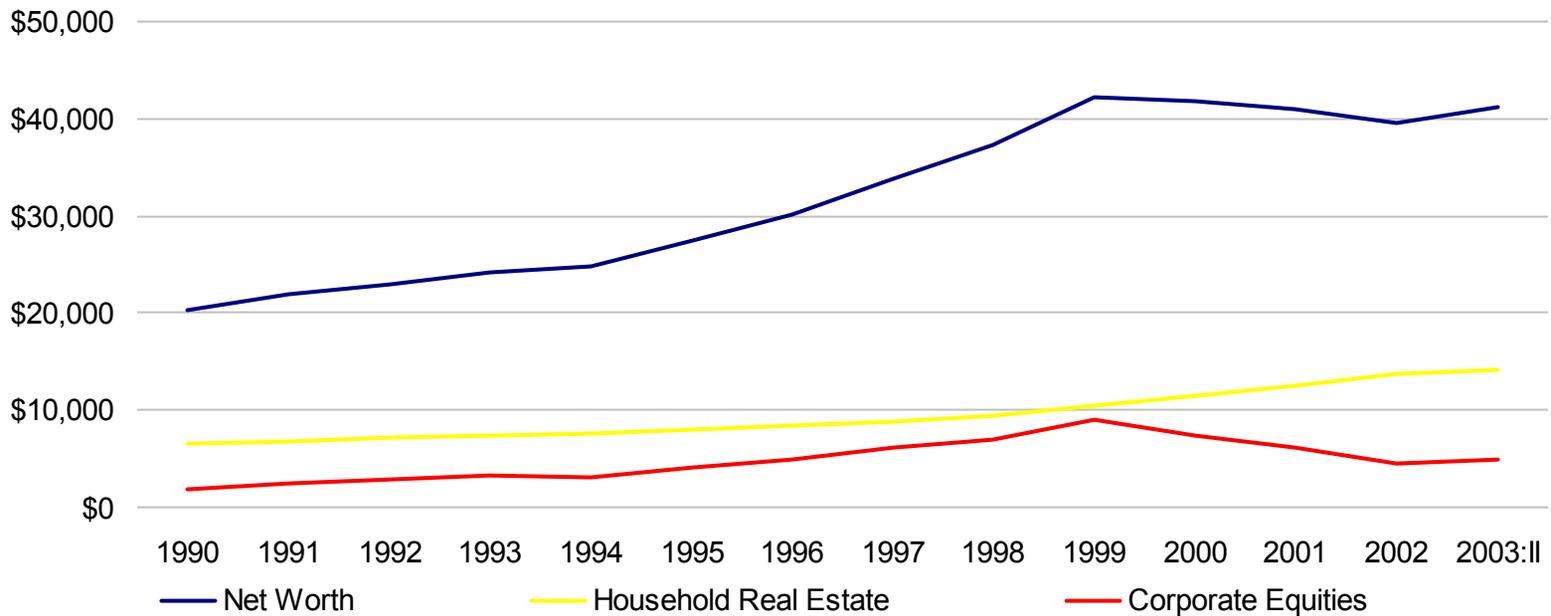


Source: Bureau of Labor Statistics, Total nonfarm employees based on Payroll Survey.



Facts or Fallacies?

Changes in Consumer Wealth Indicators, 1990-2003:II

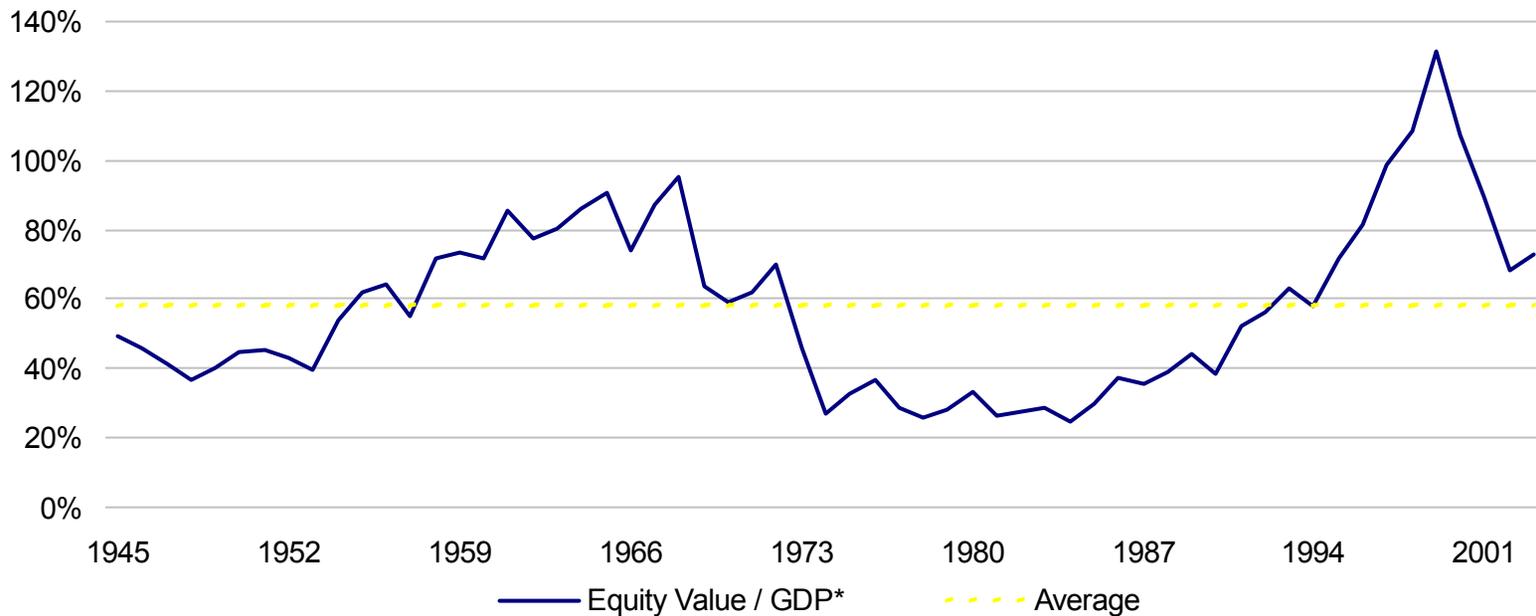


Source: Federal Reserve Board, Flow of Funds Accounts, September 9, 2003.



Facts or Fallacies?

Equity Value Relative to GDP, 1945-2003:II



Source: Federal Reserve Board.

* Equity value based on household and nonprofit organization ownership of corporate equities and mutual fund shares as defined in Flow of Funds Accounts (B.100), September 9, 2003.



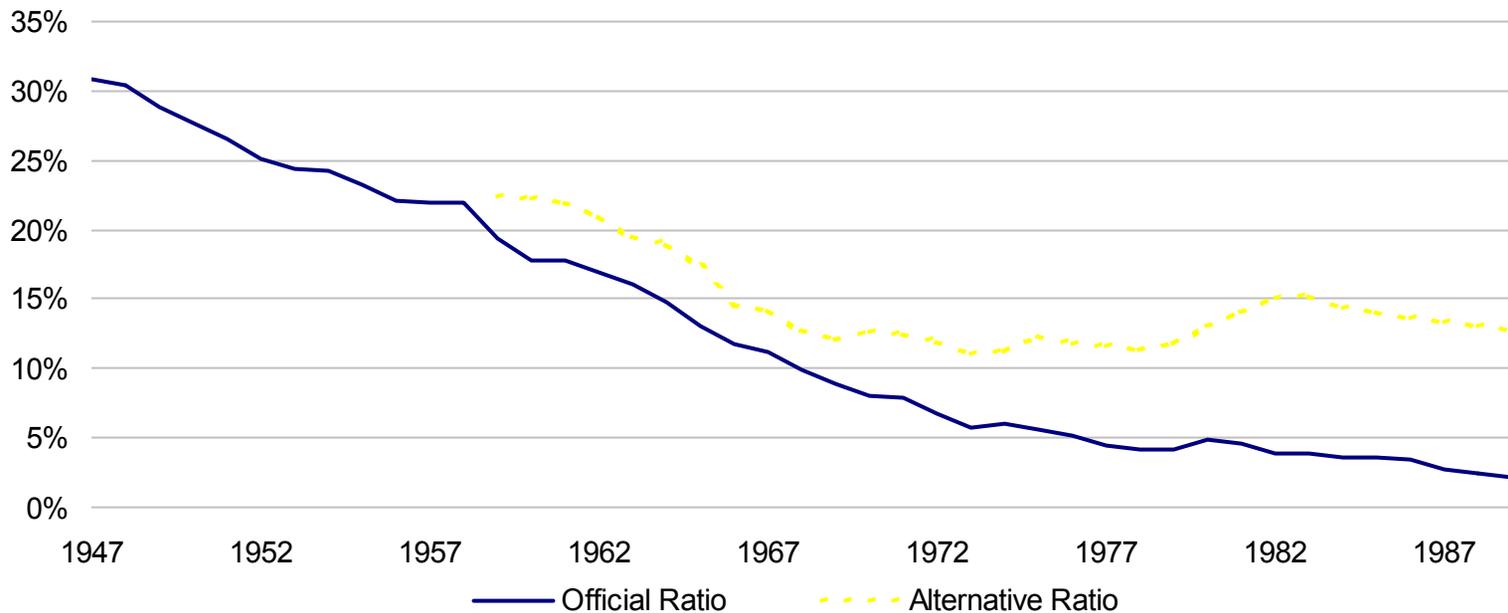
Facts or Fallacies?

- We are losing the war on poverty; despite massive transfer programs to reduce poverty, the poverty rate has declined little in over twenty years
 - The official poverty rate does show this, but it is apolitically sensitive and dated measure that has not been changed since its creation in the 1950s.
 - Alternative and updated measure shows a significant decline



Facts or Fallacies?

U.S. Poverty Ratios, 1947-1989



Source: Bureau of the Census, "Poverty in the United States: 2002."