VOLUME XVIII No. 18 **T U E S D A Y** **January 26, 2016**

THINGS MAY NOT BE ALL THEY SEEM

The Bureau of Economic Analysis, a division of the US Government's Commerce Department, recently released its Third Estimates in respect of the US economy, during the Third Quarter of 2015.

In it, there is a great deal of '*meat*' that needs to be digested because it does appear that things are not all that positive in The Land of The Free and The Home of The Brave – as least, as was made obvious on analysis of the Third Quarter results.

In kicking off its Third Estimates, The Bureau has stated that Real **G**ross **D**omestic **P**roduct (**GDP**) '*increased 2.0 percent at an annual rate in the third quarter of 2015 …*'.

TARGET () Note

Real Gross Domestic Product (GDP) is a measure of the value of economic output that has been adjusted for price changes due to inflation or deflation. This adjustment transforms the money-value measure, that is the Nominal GDP, into an index for quantity of total output.

GDP is the sum of consumer spending, investment made by industry, excess of exports over imports, and government spending. Due to inflation, GDP increases may not actually reflect the true growth in an economy. That is the reason that the inflation rate must be subtracted from the GDP in order to arrive at the real growth percentage; and, this is labelled as being '**The Real GDP**'.

The Bureau noted that, in the Second Quarter of 2015, the real GDP increased by 3.90 percent.

It was, also, noted that inventory investment in The United States of America decreased more in the Third Quarter than had previously been anticipated and estimated.

The slowdown in real GDP in the Third Quarter '*primarily reflected a downturn in private inventory investment and slowdowns in exports, in consumer spending, in nonresidential fixed investment, and in state and local government spending that were partly offset by a slowdown in imports*', The Bureau explained.

Other observations of The Bureau included:

- The prices of goods and services, purchased by US residents, increased 1.30 percent in the Third Quarter after an increase of 1.50 percent in the Second Quarter. Energy prices fell in the Third Quarter while food prices increased. Excluding food and energy, prices increased 1.30 percent in the Third Quarter after increasing by 1.20 percent in the Second Quarter;

- Real **D**isposable **P**ersonal **I**ncome (**DPI**) increased by 3.80 percent in the Third Quarter after increasing by 2.60 percent in the Second Quarter. Current-dollar DPI increased by 5.10 percent after increasing by 4.90 percent. The differences in the movement in real DPI and current-dollar DPI related to a smaller increase in the implicit price deflator for consumer spending that is used to deflate DPI;

- Corporate profits in the US from current production decreased by $US33 billion in the Third Quarter after increasing by $US70.40 billion in the Second Quarter; and,

- Real gross domestic income increased by 2.70 percent in the Third Quarter after increasing 2.20 percent in the Second Quarter.

Turning to the contribution to percent changes in real GDP (in percentage points) indicated a distinct slowdown in the goods, primarily reflected slowdowns in motor vehicles and parts, in food and beverages, purchased for off-premises consumption, and in clothing and footwear that were partly offset by a pickup in other durable goods and an upturn in motor vehicle fuels, lubricants and fluids.

Personal consumption expenditures fell from the Second Quarter's figure of 2.42 percentage points to the Third Quarter's figure of 2.04 percentage points.

On the topic of '*services*', in the Second Quarter, the figure was an increase of 1.23 percentage points over the First Quarter's figure of an increase of 0.94 percentage points.

But the Third Quarter's figure for the services sector was 0.96 percentage points, down sharply from the Second Quarter and almost equalling the First Quarter's gains.

The Bureau explains this as follows:

> *'The slowdown in services primarily reflected slowdowns in food services and accommodation and in "other" services (mainly communication services) and a downturn in financial services and insurance that were partly offset by an acceleration in nonprofit institutions, servicing households (healthcare), and up upturn in housing and utilities (specifically electricity and natural gas.)'*

As for nonresidential fixed investment, there was, also, a distinct and very visible downturn, with the Third-Quarter gain, being 0.33 percentage points, versus a gain of 0.53 percentage points in the Second Quarter.

Again, The Bureau's explanation:

> '*The slowdown in nonresidential fixed investment primarily reflected downturns in structures and in intellectual property products that were partly offset by a pickup in equipment.*'

As for the all-important topic of the value of US exports in the Third Quarter, The Bureau's statistics indicated a very sharp falloff, compared with the statistics, compiled in respect of the Second Quarter.

The figure for the Third Quarter came in at a gain of 0.09 percentage points.

The figure for the Second Quarter came in at a gain of 0.64 percentage points.

Once again, an explanation from The Bureau:

> '*The downturn in exports of goods and services reflected a downturn in goods exports that was partly offset by a pickup in services exports. Notable contributors to the downturn in goods exports were downturns in nonautomotive capital goods and in industrial supplies and materials (notably petroleum and products) and slowdowns in "other" goods and in foods, feeds and beverages.*'

With regard to imports, which is often considered an important statistic, another indication as to the strength (or otherwise) of an economy, being given as much – if not more – importance than exports, the Third Quarter's statistic was a negative 0.35 percent (negative 0.46 percentage point with regard to the Second Quarter).

The Bureau put this situation down to a slowdown in imports of goods and services, partly offset by a pickup in services imports.

> '*Notable contributors to the slowdown in goods imports were a slowdown in automotive vehicles, engines and parts, and a downturn in nonautomotive capital goods,*' The Bureau cited as reasons.

<u>Summary</u>

In summary, although it may be much too early to make a definitive judgement in respect of the largest, single economy of the world, the latest statistics, coming from The Bureau, do not, exactly, fill one with much joy, do they?

One quarter's GDP statistics should not be taken in isolation as anywhere near an exact measurement of one or more of the crucial factors that go to paint a clear picture with regard to the health of largest, single economy of the world.

Recently, The Bureau, also, brought out its findings in respect of the Consumer Price Index for All Urban Consumers, known as the CPI-U.

In the month of December 2015, the CPI-U declined by 0.10 percent on a seasonally adjusted basis, one is told.

During the entire 2015 year, '*the all items index increased 0.7 percent before seasonal adjustment*', The Bureau added to the first paragraph of its report.

The Federal Reserve, the de facto Central Bank of The United States of America, has long maintained that it would like the economy to reach an inflation rate of two percent per annum.

The CPI is but a statistical estimate, measuring changes in the price levels of a market basket of consumer and services, purchased by households, during a certain period of time.

It is used as an index, adjusted for the effect of inflation, charting, inter alia, the real value of wages and salaries as well as pensions.

The December CPI-U statistic is only an estimate for one month and, as such, it cannot, in isolation, mean very much.

However, it did decline: That is a fact.

Perhaps, more importantly than one month's CPI-U and one quarter's measurement of the country's GDP is how the largest economies of the world will fare as – and when – the Government of the People's Republic of China admits, openly, that its economy is continuing to slow.

The US must feel the brunt of any material decline in the world's second-largest economy, but it remains to be seen as to what extent its economy will be affected.

Thanks to the US Government's determination to continue to release, on a timely basis, the situation(s) that is affecting its economy, detrimentally, the next six months may well tell the tale.

The US economy and its future path as the year progresses, however, may not be as positive as some people are inclined to suggest, today.

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