

How Can the GDP Accounts Be Made More Effective for Business Cycle Analysis? By Brent Moulton

Discussion of Issues

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BEA Advisory Committee Meeting

November 7, 2008

Measuring the Nation's Economy.



I am Here in Two Roles

- Member of This Committee Serving as a Discussant
- Perhaps more important, Member of the NBER Business Cycle Dating Committee since 1978
- Brent motivates his comments with this quote:
 - “The [NBER Business Cycle Dating Committee] views real GDP as the single best measure of aggregate economic activity.” (NBER, Oct 21, 2003)

Themes of My Discussion

- Substantive Issue: Is Real GDP the Right Metric as Contrasted with Alternatives?
 - For instance, Command Economy GDP examined by Marshall Reinsdorf this afternoon
- Why are we Asking this Question?
 - Different Dynamics of Real GDP and Employment now in 2008 and also in 2001-03
- Beyond Substance: What can the BEA do to Communicate More Clearly What People Want to Know?

The Primary Question: Is Real GDP the Right Concept for Business Cycles?

- Consider Real GDP vs. Command Economy Output
- As Explained by Marshall R, Command Economy Excludes Net Exports and Uses Different Deflators
- But do we Want to Exclude Net Exports?

Traditional NBER Definition of Business Cycles

- A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.
- How Could we Exclude Net Exports?
 - Exports generate real income, employment, and industrial production
 - Imports subtract from consumer and investment spending real income, employment, and industrial production
- Marshall Reinsdorf's Presentation Shifts the Focus from Production to Consumption. His Contribution Chart shows that the 2008:Q2 Spike in Real GDP Growth is eliminated for consumer purchasing power by higher oil prices.
- But the NBER Business Cycle Concept is about Domestic Production, not the buying power of the Domestic Consumer

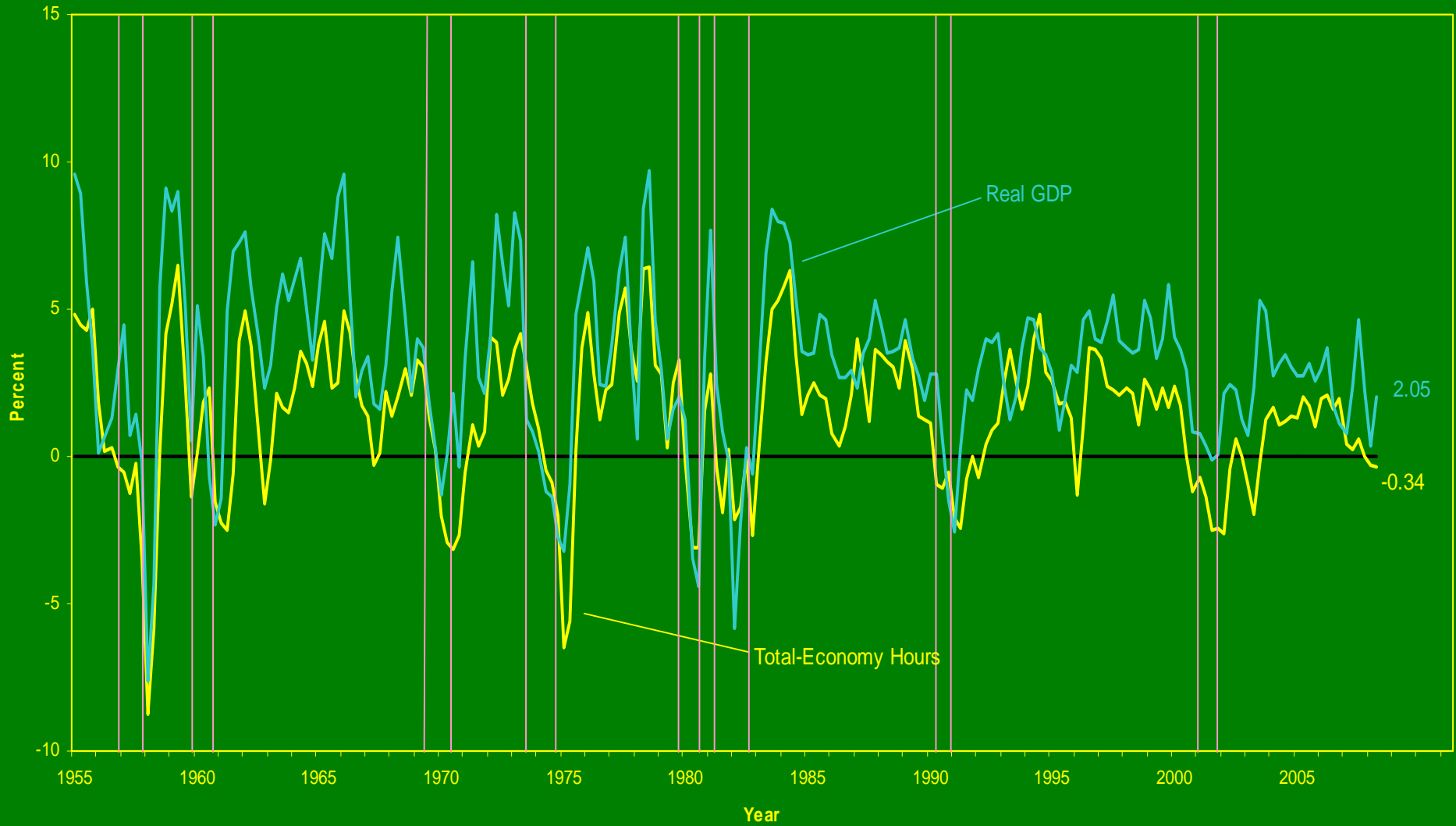
More About Production vs. Consumption

- Consider Four Scenarios in Periods 1 and 2
 - A: Production 100 in 1 & 2, Consumption 100 in 1 & 2. We would all agree, no business cycle.
 - B: Production 100 in period 1 and 95 in period 2. Consumption 100 and 95. Yes there's a business cycle
 - C: Production 100 in 1 & 2. Higher imported oil prices reduce real consumption in period 2 to 95. This is not what the NBER means by a business cycle (there may be subsequent multiplier effects)
 - D: Production 100 to 95. *Lower* imported oil prices allow consumption to be 100 and 100. This is the key example - yes it is a business cycle.
- Eliminating pure price effects is analogous to excluding capital gains from GDP

Back to Substantive Problem for BCDC

- In 2008 the decline in employment led the decline in GDP
- In the first half of 2008, real GDP registered a positive change while payroll employment declined in every month
- Why would Employment lead Output after a Long History when Employment Lags Output?

qtr Change in TE Output & Hours



Characterizing the NBER Dilemma

- In earlier postwar Business Cycles, decline and recovery of output and hours was almost simultaneous
- In 1990-91 and 2001, hours lagged behind as output recovered
- The early lead downward of hours and employment in 2008 raises questions about what was special about real GDP in the first half of 2008
- Can BEA help to quantify the hypothesis that shift from construction to exports represents a compositional shift to higher productivity industries?

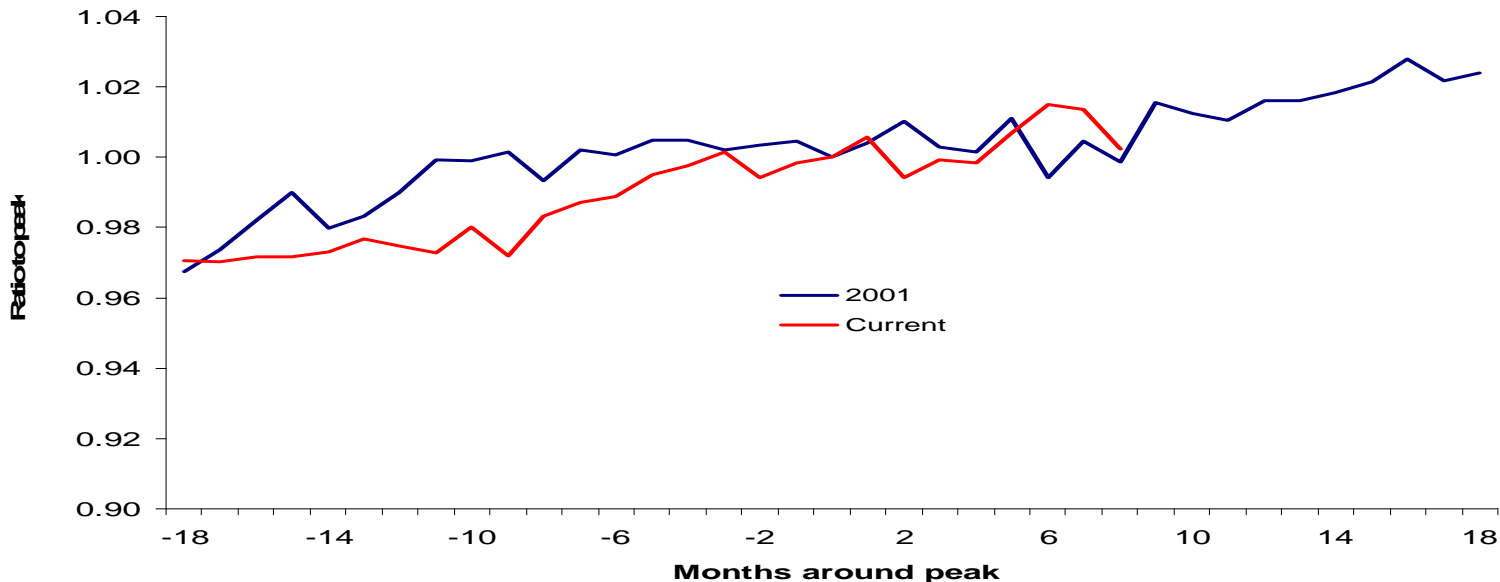
Should BEA Publish Monthly GDP?

- Should BEA Publish Monthly GDP?
- BEA Already Publishes monthly Personal Income and Consumption
 - And other variables
- Would BEA's version of monthly GDP be better or worse than Macro Advisors?
- I'll encourage comments on that question
- The next slide shows how the BCDC examines time series

What the BEA Could do that is New

- Monthly GDP? This has already been done by Macro Advisers (peak month below is 12-07)

Monthly real GDP, from Macro Advisers



Some of Brent's Alternative Concepts Don't Matter (and he probably agrees)

- How Could Subtracting Something Smoothly Changing alter a Business Cycle Interpretation of Real GDP?
 - Net domestic product (NDP) - deducts charge for capital depreciation.
 - Gross/net national income - adds net income receipts from the rest of the world.
 - Purchasing power of income
 - “Wealth - expanded reconciliation with flow of funds accounts to include changes in net worth.”

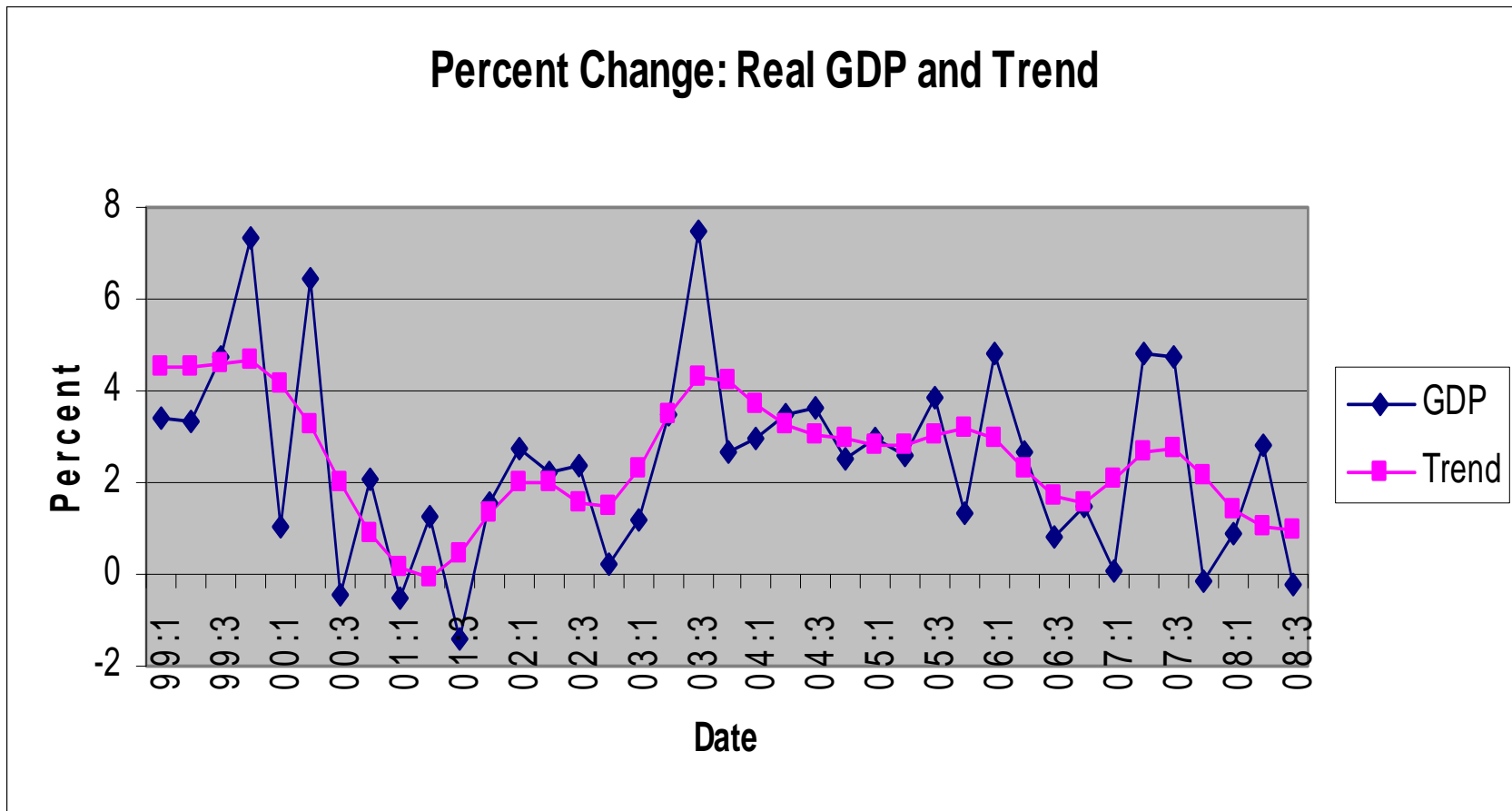
Next Brent Turns to Wage Measures

- The discrepancy between BEA compensation per hour and BLS real weekly wage
 - Different numerators
 - Different price indexes
- This has been noted before in the context of growing inequality (Dew-Becker and Gordon, BPEA, 2005, Table 2)
- But it is an issue involving long-run growth and rising inequality, not business cycles

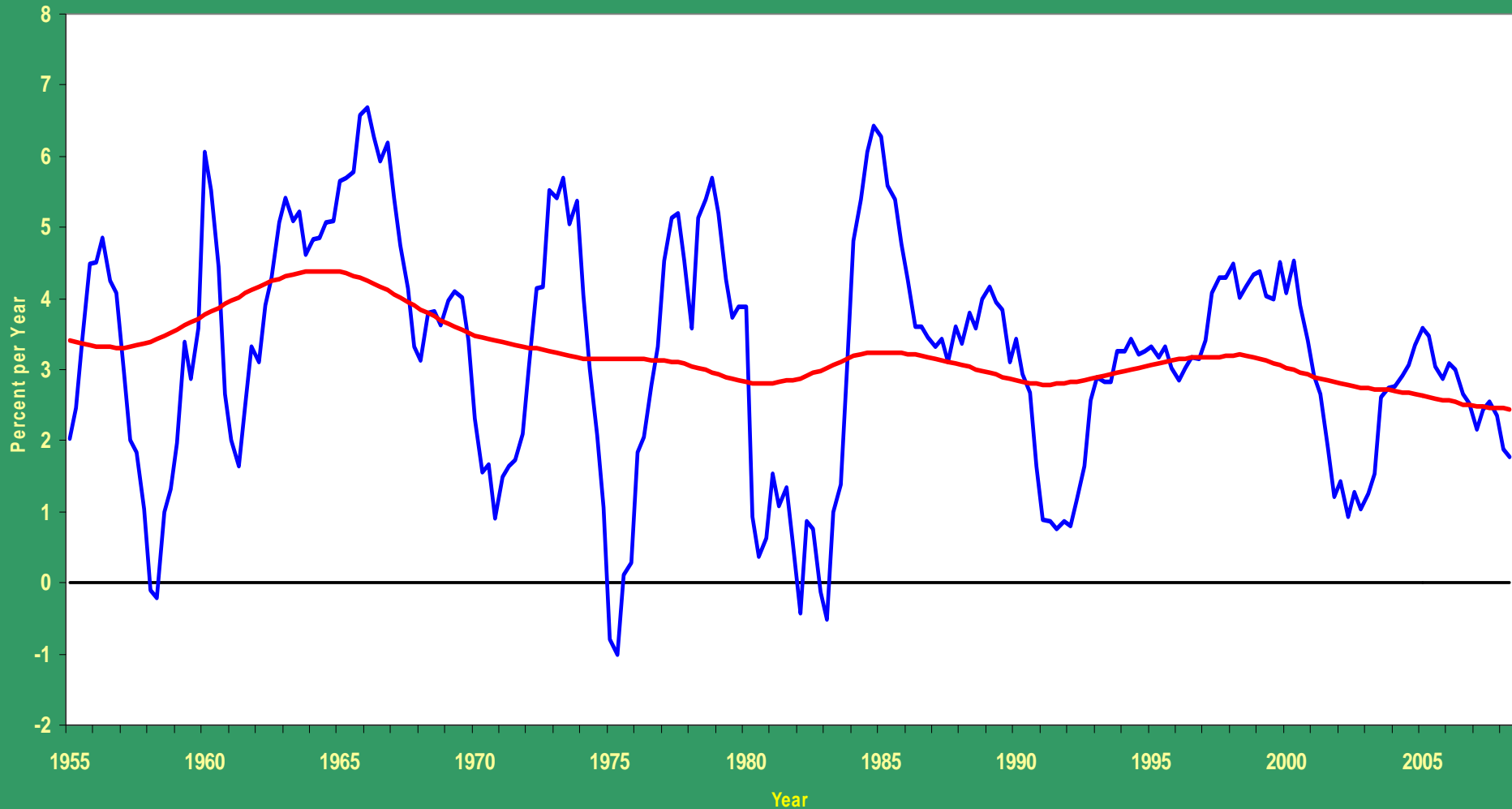
Estimates of GDP trend

- There is an argument that the BEA could offer supplemental information on changes in real GDP relative to trend
- But please don't use Brent's "trend" which is too short-run to be useful - note how it "bends" in the 2001 recession
- Contrast it to my trend (updated from 2003 BPEA)

Brent's Trend



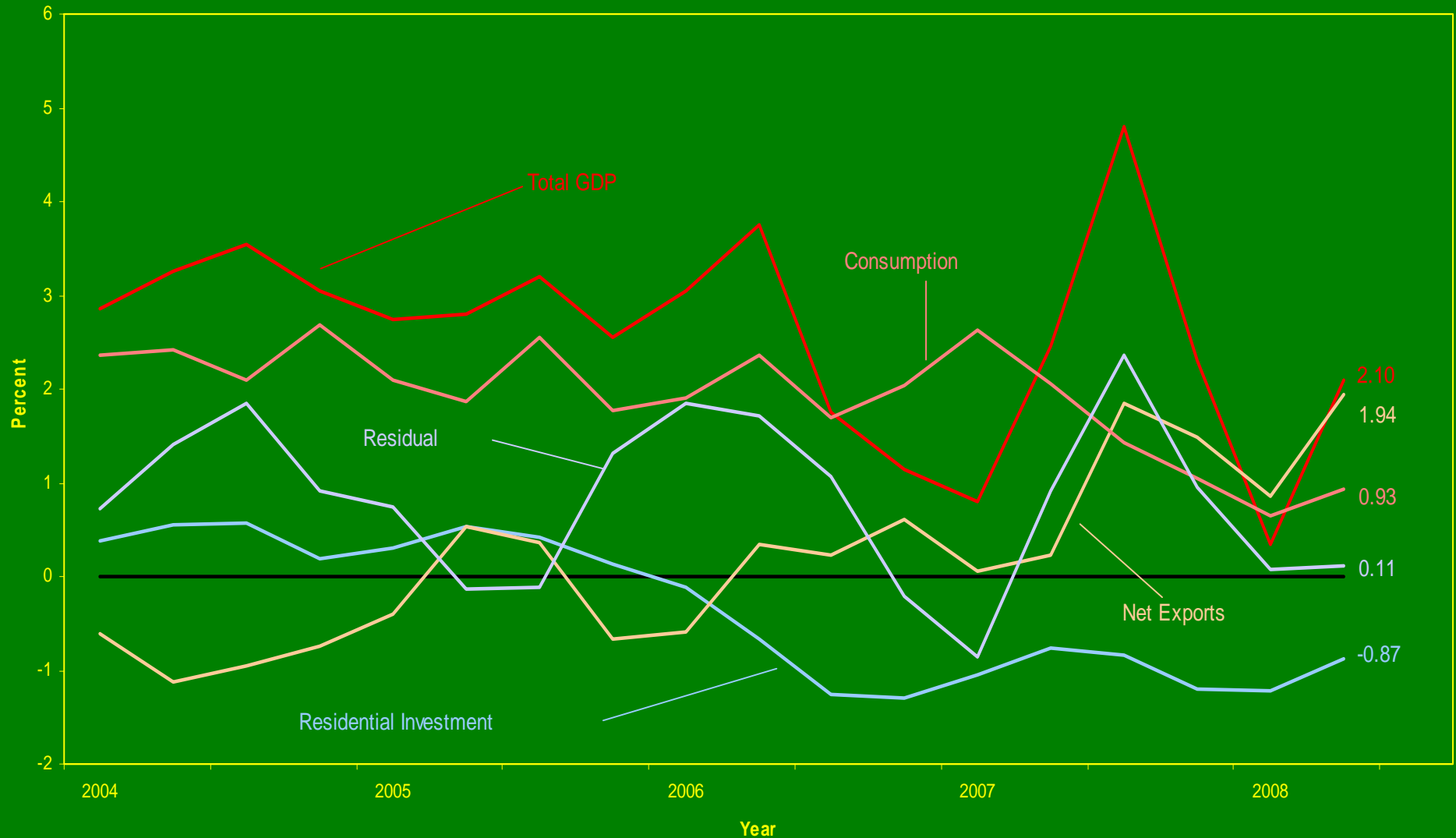
Real GDP, 8-quarter Actual Change vs. Kalman Trend, 1955-2008:Q2



Presentation and Communication

- Provide Graphical Interpretation on BEA web site. The topics could change each quarter
- Highlight the role of oil prices in driving a wedge between production and real income concepts as in Marshall's decomposition
- Highlight the opposing contributions of residential housing and net exports

Contributions, 2-quarter changes, aggregated to five components



BEA Web Site: Improvements Needed

- Home Page: Need Middle Section (like old BLS home page) highlighting current big news
- Could have clickable links to analytic charts, e.g., Marshall's or my type of contribution breakdown
- Clickable links to “Current puzzles about GDP and the business cycle”
- And please clean up initial GDP page!