

# Joint Economic Committee

Representative Pat Tiberi, Chairman      Senator Mike Lee, Vice Chairman

January 30, 2017

## GDP Review (Fourth Quarter 2016)

### GDP Review Snapshot

- Fourth-quarter GDP rose only 1.9% (annual rate) falling short of expectations.
- For all of 2016, GDP grew 1.6% — well below the Obama Administration’s OMB projection of 2.6%.
- Average growth during the Obama Administration was 1.5%, less than half the average rate of 3.4% over the 50 years before the Obama presidency.

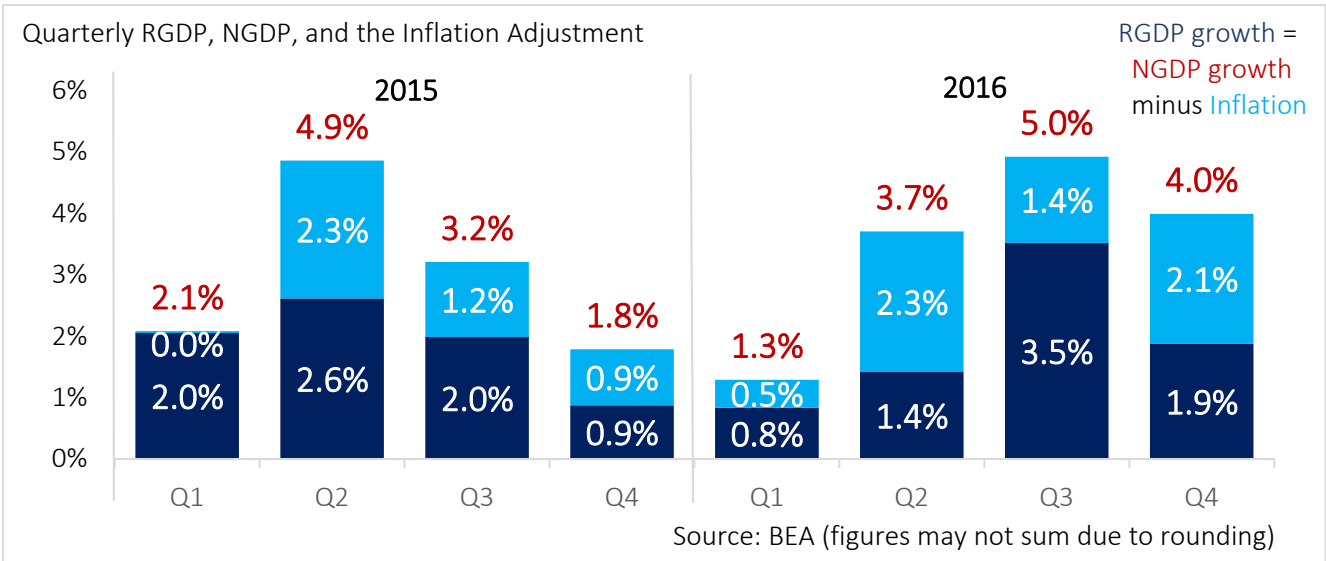
### First Estimate of Fourth Quarter Data and 2016 Year-End Growth

The [Bureau of Economic Analysis \(BEA\) reported](#) that real gross domestic product (RGDP), which is adjusted for inflation, grew at a 1.9% annual rate\* in the fourth quarter of 2016. This compares to 3.5%, 1.4%, and 0.8% in the third, second, and first quarters, respectively.

Fourth Quarter Data		Fourth Quarter RGDP Forecasts	
Real GDP (RGDP) growth	1.9%	<a href="#">Atlanta Fed GDPNow</a>	2.9%
Nominal GDP (NGDP) growth	4.0%	<a href="#">Wall Street Journal survey</a>	2.1%
Inflation rate (Implicit GDP deflator)	2.1%	<a href="#">Wells Fargo Economics Group</a>	1.8%

Sources: BEA, Haver Analytics, Atlanta Fed, Wall Street Journal, Wells Fargo Economics Group.

Nominal GDP (NGDP), which measures total spending in the economy in current dollars, increased by 4.0% in the fourth quarter. After adjusting for inflation of 2.1%—as measured by the GDP deflator—RGDP growth was 1.9%.



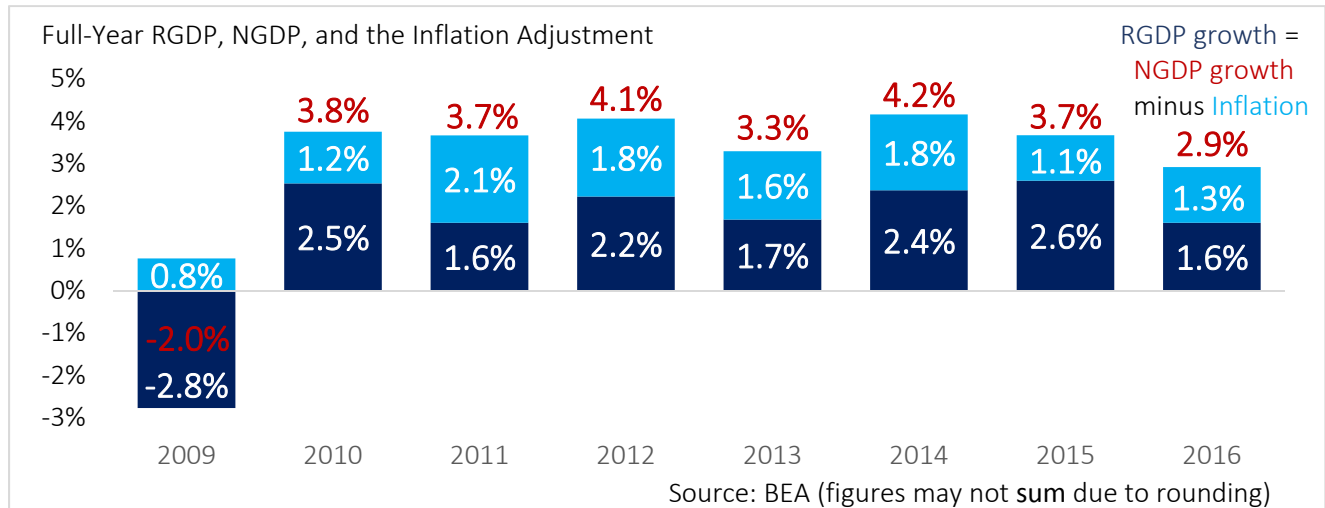
\* Quarterly growth rates are measured at an annual rate unless stated otherwise. An “annual rate” for a quarter means BEA applied the rate in that quarter as if it occurred throughout a year.

The inflation-adjusted dollar value of final goods and services produced within the borders of the United States (RGDP) in 2016 was \$16.7 trillion compared to \$16.4T in 2015.

2016 Annual Data		2016 RGDP Forecasts	
Real GDP (RGDP) growth	1.6%	<a href="#">CBO (August 2016)</a>	1.9%
Nominal GDP (NGDP) growth	2.9%	<a href="#">Federal Reserve (December 2015)</a>	2.4%
Inflation rate (Implicit GDP deflator)	1.3%	<a href="#">OMB (February 2016)</a>	2.6%

Sources: BEA, Haver Analytics, Congressional Budget Office (CBO), Federal Reserve Board of Governors, Office of Management and Budget (OMB).

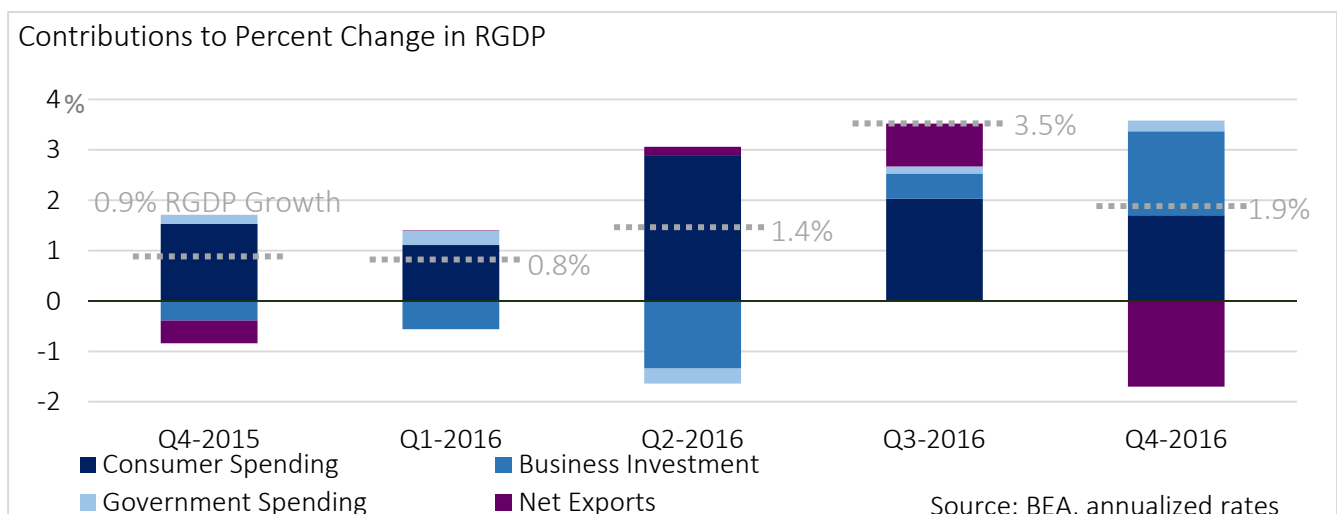
For the entire year NGDP grew by 2.9%. After accounting for inflation of 1.3% (GDP deflator) RGDP growth registered a 1.6% increase for 2016.



### Context

Fourth-quarter RGDP growth was driven by consumer spending and business investment. Falling net exports were a large drag on growth this quarter as exports slowed and imports (which are always subtracted from GDP) grew.

A smaller increase in consumer spending was another factor causing the slowdown in RGDP growth from 3.5% last quarter to 1.9% this quarter. This was partially offset by accelerating business investment, mostly due to an increase in business inventories. Despite this, for 2016 overall, business investment was a drag on RGDP. This was the first time since 2009 that investment contributed negatively to annual RGDP growth.



NOTE: The aforementioned information is based on the BEA first estimate of GDP. Two revisions for BEA's preliminary GDP report are scheduled for February 28 and March 20.

## The Bigger Picture

The 2016 BEA preliminary GDP report is the last that will cover the Obama Administration exclusively. RGDP's 2016 increase of 1.6% was the slowest since 2009, when it fell 2.8%, and it ties with the 1.6% rate in 2011. This complements the lackluster 2016 private-sector job growth, which averaged only 165,000 per month and is the [slowest since 2010](#).

During the Obama Administration, annual RGDP growth averaged a meager 1.5%. Prior to it, the average growth rate was 3.4% (50-year average). In other words, pre-Obama, it would take only 21 years for the economy's size to double. At 1.5%, it would take 47 years.

Furthermore, according to [CBO data](#) the Obama Administration was the [only one in the last 50 years to not experience at least one year in which GDP met or exceeded its potential](#) (potential GDP is the maximum output an economy can produce without inflation).

The Office of Management and Budget (OMB) [projection for annual growth in 2016](#) proved overly optimistic. It forecast 2.6% in contrast to the actual 1.6%.

## Economic Indicators

The following data measures economic activity during the fourth quarter. These data are often used to forecast GDP growth before a given quarter's end.

Fourth Quarter Economic Indicators	Oct-16	Nov-16	Dec-16
ISM Manufacturing Index (>50, expansion)	52.0	53.5	54.5
ISM Non-Manufacturing Index	54.6	56.2	56.6
U.S. Trade Surplus/ <b>Deficit</b> (Millions)	<b>\$42,360</b>	<b>\$45,240</b>	N/A
Retail Sales	0.7%	0.2%	1.0%
Business Inventory-to-Sales Ratio	1.37	1.38	N/A
Housing Starts	25.5%	-16.5%	11.3%
Durable Goods Orders	5.0%	-4.5%	-0.4%
Personal Income	0.5%	0.0%	N/A
Personal Outlays	0.4%	0.2%	N/A
Nonfarm Payroll Job Growth	135,000	204,000	156,000
Private Payroll Job Growth	146,000	198,000	144,000
PCE Inflation (12mo change)	1.4%	1.4%	N/A
Core PCE Inflation (12mo change)	1.8%	1.6%	N/A
Consumer Confidence	100.80	109.40	113.70

Source: Haver Analytics.

## Key Upcoming Releases

- February 2, 8:30am: Third-quarter (2016) GDP by state
- February 28, 8:30am: Second estimate of fourth-quarter (2016) GDP data
- March 30, 8:30am: Final estimate for fourth-quarter (2016) GDP
- The BEA release dates for the first quarter of 2017:
  - First estimate: April 28, 8:30am
  - Second estimate: May 26, 8:30am
  - Third estimate: June 29, 8:30am