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

Discussion of Issues

Robert J. Gordon
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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:
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
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?
Historical Perspective: 2-qtr Change in TE Output & Hours

-10  -5  0  5  10


Real GDP

Total-Economy Hours

Percent

2.05  -0.34
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 Advisors (peak month below is 12-07)

![Monthly real GDP, from Macro Advisers](image)
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.”
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

Percent Change: Real GDP and Trend

Date

Percent

GDP

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!