



# the h1:2011 economy may have been stronger than we thought

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How weak was the US economy during the first half of 2011? The answer is not so obvious.

There are several ways to measure aggregate activity.

If we add up all of the final expenditures in the economy, adjusting for inflation, we get real gross domestic product (GDP). Real GDP rose a mediocre 0.4% in Q1 and 1.0% in Q2. (All growth rates are seasonally adjusted annual rates.) Such increases sound like “stall speed,” growth so low it sounds like an economy could tip over into recession.

But there is another way to add up the economy. If we add up all of the final incomes in the economy, adjusting for inflation, we get real gross domestic income (GDI).

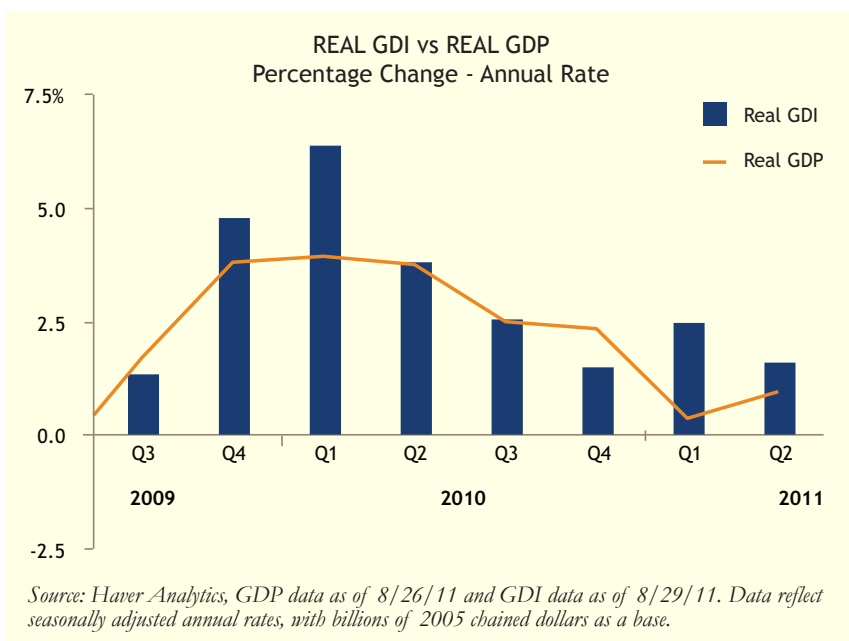
In principle, GDP and GDI should be the same.<sup>1</sup> However, because they are estimated from different, and incomplete, data sources, there is a statistical discrepancy between them. The two measures can change at different rates.

Research<sup>2</sup> by Fed economist Jeremy Nalewaik found that in the short-term, GDI does a better job tracking the business cycle. It is typically more timely. When GDP gets revised, it commonly converges on the estimates from GDI, rather than GDI converging on the estimates of GDP.

In Q1, real GDI rose 2.4%, and in Q2, it rose 1.5%.

If we look at the GDI figures, the first half of the year was stronger than the GDP data indicate. Based on the recent track record, I think we ought to pay more attention to GDI. We may not be as close to “stall speed” as GDP would suggest.

The stronger GDI growth for Q1 suggests why job creation was as strong as it was in Q1. Job creation seemed too strong in Q1 compared to the real GDP growth estimate.



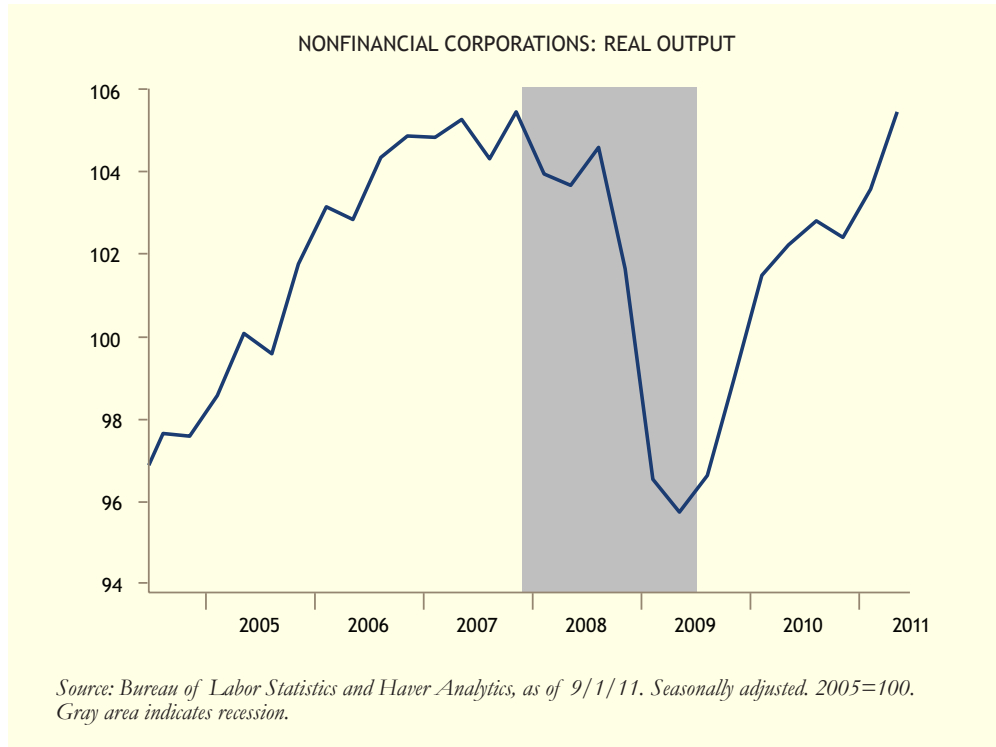
<sup>1</sup> GDP is the monetary value of all the finished goods and services produced within a nation's borders, as measured by expenditure (including all consumer spending, government spending, and business spending on capital). GDI is the sum of all income earned while producing goods and services within a nation's borders. Thus, in theory, the two should be equal.

<sup>2</sup> Brookings Papers on Economic Activity, Spring 2010: [http://www.brookings.edu/~media/Files/Programs/ES/BPEA/2010\\_spring\\_bpea\\_papers/2010a\\_bpea\\_nalewaik.pdf](http://www.brookings.edu/~media/Files/Programs/ES/BPEA/2010_spring_bpea_papers/2010a_bpea_nalewaik.pdf)



Finally, there is a third measure, but only of a slice of the economy. A key sector is the nonfinancial corporate sector. It excludes government, noncorporate small businesses, farmers, nonprofits, owner-occupied housing, and banks and insurance companies. Real output in the nonfinancial corporate sector surged a hot 4.5% in Q1 and a red-hot 7.5% in Q2. Not bad at all, in my opinion.

The weakness in the economy is predominantly in housing, banks, government, and small business. Overall, nonfinancial corporations have been doing well. Output in that sector has essentially matched the prior peak of Q4:2007.



How's the economy doing? It depends on whom you ask. Don't count it as a lost cause just yet.

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