

# Research Note

V1N3

EAST BOSTON ECONOMICS

March 30, 2017

[fconte.blogspot.com/fconte@eastboston.com/781-224-0608](http://fconte.blogspot.com/fconte@eastboston.com/781-224-0608)

## U.S. Gross Domestic Product: 2.1%

Frank Conte, Editor

### Third Estimate: 4<sup>th</sup> Quarter 2016

#### OVERVIEW

- Real Gross Domestic Product, the sum of all goods and services produced in the United States, increased 2.1 percent in the fourth quarter, the [Bureau of Economic Analysis reported in its third and final estimate](#). In the third quarter the economy grew by 3.5 percent. The current dollar value of the economy for this period rose to \$18.869 trillion.
- Consumer spending, private inventory investment, residential and business investment as well as state and local government led the way.
- The service sector of the consumer spending portion of GDP accounted for the upward revision to 2.1 percent from 1.9 percent. This revision was offset by downward revisions to business investment and exports.
- The prices paid by consumers for goods and services increased 2.0 percent in the fourth quarter. The third quarter of 2016 saw an increase in prices of 1.5 percent.
- Corporate profits increased 0.5 percent at a quarterly rate in contrast to the soaring 5.8 percent in the third quarter.
- Profits of financial corporations increased 5.4 percent while nonfinancial corporations decreased 4.9 percent.
- Corporate profits from abroad i.e. “the rest of the world,” increased by 11.0 percent.
- Real GDP increased 1.6 percent in 2016 (that is, from 2015 (which rose by 2.6 percent.)

#### ANALYSIS

The lack of willingness of both consumers and firms to take the risks necessary to sustain an innovation economy is one of the many steadfast themes in Tyler Cowen’s new book, *The Complacent Class: The Self-Defeating Quest for the American Dream*. Cowen, a professor of economics at George Mason University and the founder of the popular economics blog [MarginalRevolution.com](#), notes a persistence of an “investment drought.” The downturn in investment runs concurrently with other trends that make the U.S. consumer and firms comfortable and not in a good way. Net capital investment is down to around 2 percent of GDP. According to Cowen, “This again means that America is not replenishing its future sources of innovation, growth, and the ability to pay higher wages because the future capital just won’t be there to the same extent. Nonresidential fixed investment is more than 20 percent below its long-run trend. Each of these numbers is hard to measure...but it is hard to spin a positive story from the overall patterns in the data.”<sup>1</sup> In the latest BEA report, the contributions of gross private investment to the nation’s real GDP rose to .73 percent in 2014 to .82 percent in 2015 before falling to .26 percent in 2016. Generally, nonresidential fixed investment followed the same trend for the three years. Of the 1.6 percent growth for 2016, nonresidential fixed income only contributed 0.11 percent.

<sup>1</sup>Tyler Cowen, “The Complacent Class: The Self-Defeating Quest for the American Dream,” (St. Martin’s Press, New York, 2017):80.

Source for chart: BEA Real net fixed investment: Nonresidential: Consumption of fixed capital, retrieved from [FRED: Federal Reserve Bank of St. Louis](#).

