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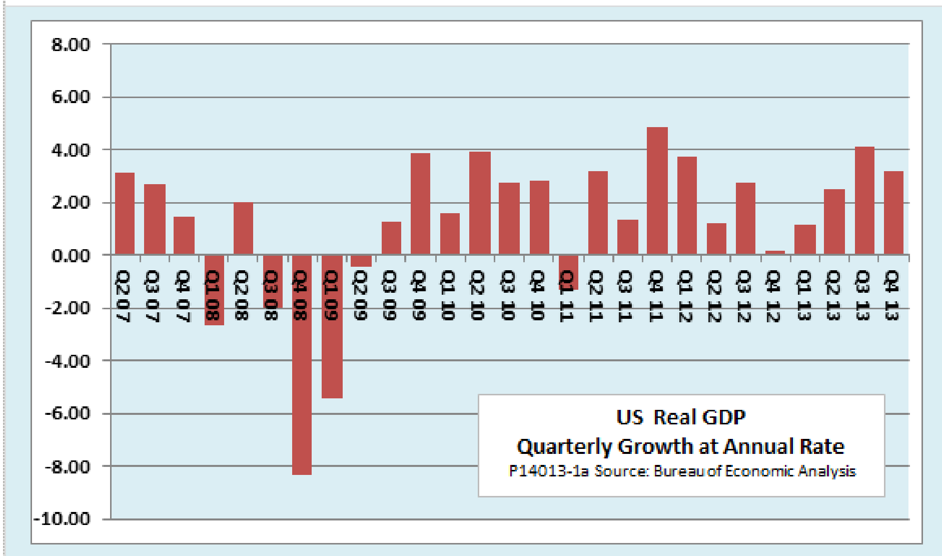
Total US GDP Grows 3.2 Percent in Q4. That's Nice, but Why do We Pay So Little Attention to Per Capita Measures?

Author: Ed Dolan (/blog/author/edolan) · January 30th, 2014 · › (http://www.economonitor.com/dolanecon/2014/01/30/total-us-gdp-grows-3-2-percent-in-q4-thats-nice-but-why-do-we-pay-so-little-attention-to-per-capita-measures/#comments)

According to today's advance estimate from the Bureau of Economic Analysis, U.S. real GDP expanded at an annual rate of 3.2 percent in the fourth quarter of 2013. That brought GDP growth for the entire year to 2.74 percent, nearly equaling the 2.77 percent of 2010, which was the strongest since the recovery began. As the following chart shows, most of the growth came in the second half of the year.



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The biggest driver of the expansion, as the following table shows, was personal consumption expenditure. Consumption contributed 2.26 percentage points to GDP growth, the most in three years. Export growth was also exceptionally strong, contributing 1.48 percentage points, while imports barely changed. The contribution of investment to GDP growth was down sharply from the preceding quarter. The negative contribution of the government sector, which has been shrinking steadily under the impact of federal austerity measures, took an unusually large bite out of GDP in Q4.

Contributions to GDP Growth by Sector

Q3 2013 Third Estimate		*Q 2013 Advance Estimate*	
Real GDP	**4.10**	**Real GDP**	**3.20**
Consumption	1.36	Consumption	2.26
Investment	2.56	Investment	0.56
Fixed	0.89	Fixed	0.14
Inventories	1.67	Inventories	0.42
Government	0.08	Government	-0.93
Net exports	0.14	Net exports	1.33
Exports	0.52	Exports	1.48
Imports	-0.39	Imports	-0.15

P140130-3a Source: BEA

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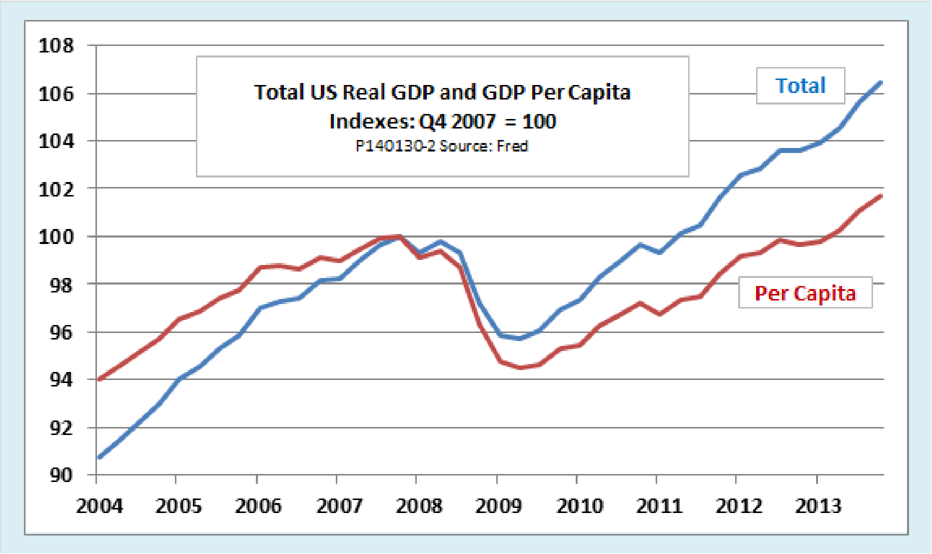
The return to stronger GDP has been widely cheered as a relief from the economic stresses of the Great Recession. However, if higher living standards are what we want, it is strange that we pay so little attention to per capita GDP. It is a commonplace of development economics that the living standards of a poor country cannot rise unless its GDP grows faster than its population, but we seem to forget that point when we talk about high-income countries.

Does population really make a difference for slow-growing advanced economies? Yes, it does. Even for a country like the United States, where population growth is now under 1 percent per year, GDP per capita lags behind total GDP by more than you might think when we compound growth rates over time.

The next chart compares total real GDP and real GDP per capita during the recession and recovery. To make the comparison easier, I have scaled both series so that their values for Q4 2007, the peak quarter before the onset of recession, equal 100. What we see is that as of Q4 2013, total real GDP is 6.5 percent above its previous peak, but real GDP per capita is up by just 1.7 percent. Another way to look at it is to note that whereas total real GDP surpassed its previous peak already in Q2 2011, per capita GDP didn't fully recover until Q2 2013, a full two years later.



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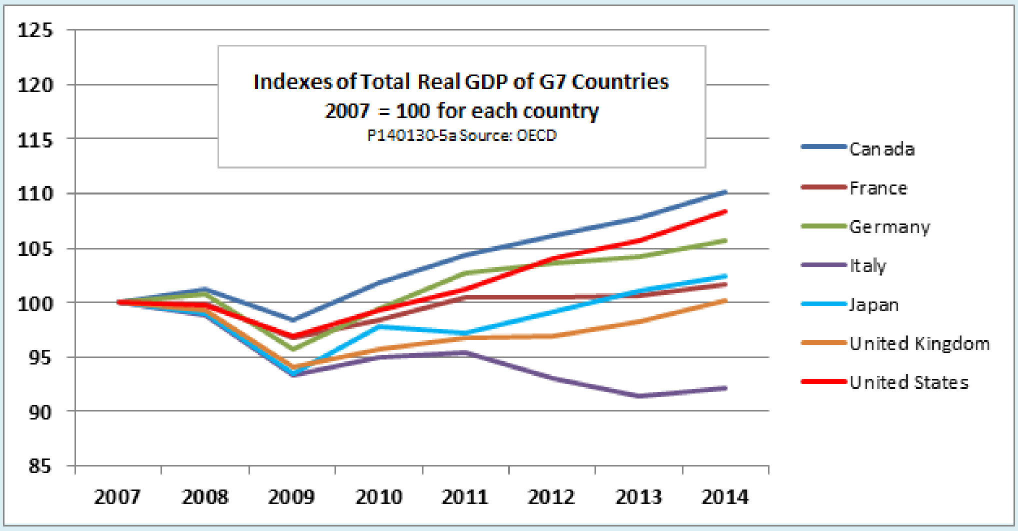
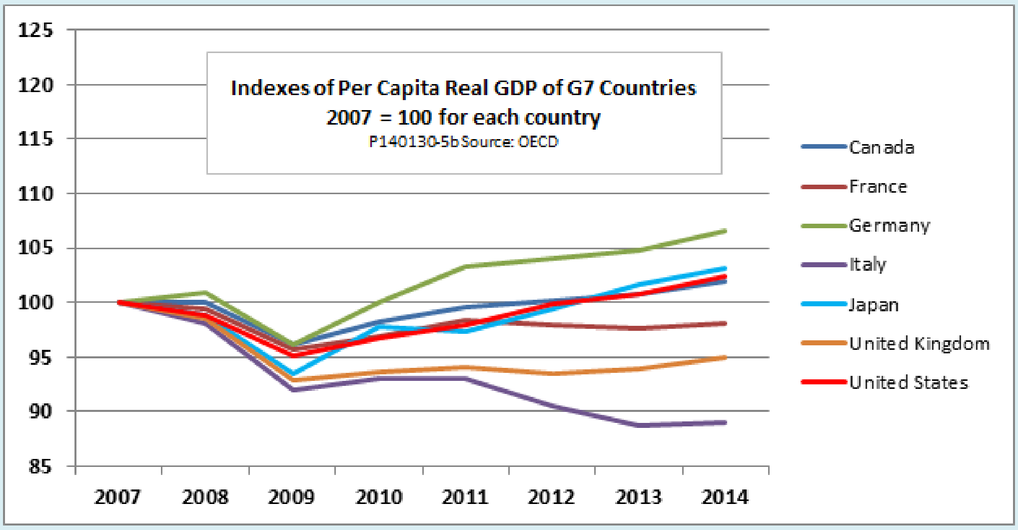
Per capita measures also matter when we make international comparisons. Total GDP grows faster than growth GDP per capita for countries with growing populations, but GDP per capita grows faster than the total for countries whose populations are decreasing. Even among high-income countries, population growth rates differ substantially. For example, within the G7, Canada's population is growing by almost 1 percent a year while those of Germany and Japan are shrinking and others are spread out between.

The next pair of charts shows that differences in population growth rates are enough to change the growth rankings of G7 countries substantially. For total GDP growth, Canada leads the pack with the United States and Germany strung out behind. Japan and France follow, in a virtual tie. The picture changes sharply when we shift to GDP per capita. Germany, whose population is shrinking, becomes the leader. The United States and Canada are now tied. Japan, whose sluggish growth of total GDP is often lamented, turns out to be doing about as well as the United States and Canada when its declining population is factored in. The per capita GDP of France, where population continues to grow, lags well behind Japan.





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It is clear, then, that growth of total GDP gives a distorted picture when it comes to national bragging rights, yet total GDP gets all the headlines. Its prominence is undeserved. I've made a New Year's resolution to try to put GDP in better perspective by paying more attention in my monthly commentaries to per capita data, and also, from time to time, to other measures of changing living standards.

Filed under: GDP (http://w w w .economonitor.com/dolanecon/category/gdp/), United States (http://w w w .economonitor.com/dolanecon/category/united-states/)

2 Responses to "Total US GDP Grows 3.2 Percent in Q4. That's Nice, but Why do We Pay So Little Attention to Per Capita Measures?"

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