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The Upshot
THE G.D.P. REPORT

Steady but Slow Remains the Story of This Recovery

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The latest G.D.P. report is less interesting for its accounting of the second quarter than for what it tells us about the future path of economic growth.

At first blush, you might think that G.D.P. growth at an annual rate of 4.0 percent points to a brighter future. But in fact, these estimates are statistically noisy, and there's no guarantee that strong growth today will translate into good outcomes tomorrow. Indeed, the historical relationship between the two is surprisingly weak.

The problem is that there are some line items in the G.D.P. report that tend to be very noisy, obscuring the underlying signal. In particular, there's very little signal in inventory investment, net exports or government spending.

Current strength in any of these items rarely points to future strength, and may even be reversed. These three components account for only 16 percent of total spending, but because of their wild fluctuations, they exert a much larger effect on quarterly movements in G.D.P.

So here's a simple trick that economists use to try to extract the underlying truth. We focus on real private final purchases, which is just the sum of the remaining 84 percent of G.D.P.: consumption and business fixed investment. This measure yields a much more reliable indicator about future growth.

Focusing on real private final purchases yields a more realistic but less optimistic interpretation of this morning's data. Real private final purchases rose 3.1 percent this quarter, a bit less than the 4.0 percent growth in G.D.P., which as my colleague Neil Irwin emphasized, was pushed up by very strong growth in inventories. This same measure also says the bad news from the previous quarter was overstated. According to the headline G.D.P. number, growth in the snow-ravaged first quarter was minus 2.1 percent (revised up from minus 2.9 percent); the more stable data on private final purchases grew at an annual rate of 1.0 percent.

All told, these more meaningful data suggest that the economy is not in the middle of some whiplash, but rather that the past few quarters continue the pattern seen throughout the entire recovery, of persistent growth, albeit at a disappointing rate.

Call this recovery the little engine that could. It is slowly pulling the economy out of the trough created by the 2008 recession, and it has doggedly persisted through each attempt to derail it — the European debt crisis, the Japanese earthquake, the debt ceiling debacle, this winter's storms and now the looming threat of tightening monetary policy. Listen closely, and you can almost hear it saying, "I think I can, I think I can," as it powers us on.

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