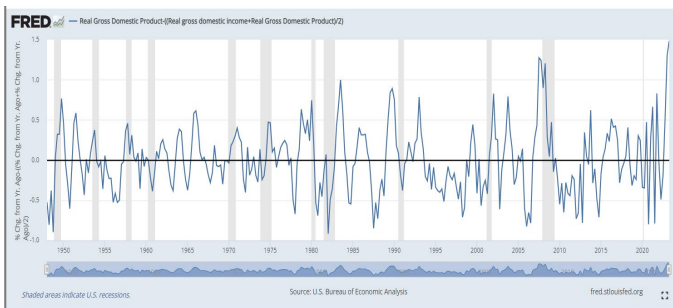


September 25, 2023

In the US GDP revision will be released on Thursday. Using GDI as our North Star, there is a very good chance that GDP will be revised downward.

History shows GDI is a better predictor of the economy than GDP. GDI is weak in the USA but even weaker in Canada!

Below is the difference between RGDI and RGDP and the corresponding adjustment that could happen to GDP this week. Below is an average of RGDI and RGDP, compared to RGDP. The expected error of the current level of GDP is at historic levels.



What is GDI?

- 1) Gross domestic income (GDI) is the sum of all income earned by residents of a country, regardless of where it is earned.
- 2) Gross domestic product (GDP) is the sum of all goods and services produced in a country, regardless of who owns the factors of production.

- 3) The main difference between GDI and GDP is that GDI includes income earned by residents from abroad, while GDP only includes income earned within the country. This means that GDI can be higher or lower than GDP, depending on the amount of income that residents earn from abroad.

In Theory GDP and GDI (Gross Domestic Income) should always equal. But since late in 2022 the two began to diverge. GDI in Canada has been negative for 4 successive quarters.

The GDI can be an early warning of an economic downturn because it is a coincident indicator, meaning that it moves in the same direction as the economy.

GDI has been negative in Canada since the 3Q of 2022. At the end of 2Q 2023, the yearly GDI is at -3.9%. This is basic Economic 101. The difference between coincident and lagging indicators. ***The Street and the BoC completely missed this basic foundational relationship.***

This means that the GDI can start to decline before other measures, such as GDP and employment, which are lagging indicators. This gives policymakers and investors time to take action to mitigate the effects of the downturn. The missed it!!!!

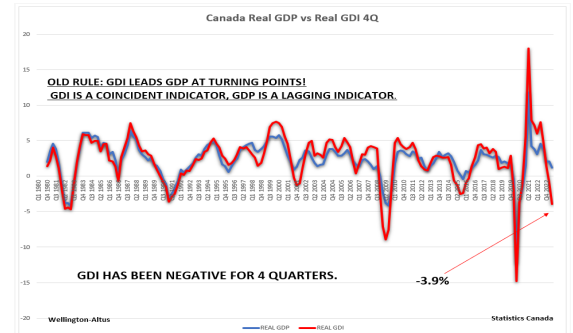
For example, the GDI began to decline in Canada in the summer of 2008, several months before the global financial crisis hit. This gave policymakers time to implement measures to stimulate the economy, which helped to mitigate the effects of the crisis.

1. The GDP is a poor measure of short-run economic activity because it is backward-looking and does not capture changes in the economy in real time.

September 25, 2023

While the MSM focuses on GDP the indicator that gives an accurate picture of the economy is GDI.

2. The GDP is also subject to revision, which can make it difficult to track economic activity accurately.
3. GDI is a better measure of short-run economic activity is the coincident index.
4. The coincident index is timelier than the GDP and is not subject to revision.
5. The coincident index can be used to identify turning points in the economy and to track economic growth in real time.
6. The coincident index is a valuable tool for policymakers and businesses that need to make decisions based on the latest economic data.
7. The coincident index is not perfect, but it is a better measure of short-run economic activity than the GDP.
8. The coincident index should be used in conjunction with other economic indicators to get a more complete picture of the economy.
9. The coincident index is a useful tool for understanding the current state of the economy and for making predictions about the future.
10. The coincident index is an important tool for policymakers and businesses that need to make decisions based on the latest economic data.




James E. Thorne, Ph.D.

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