The NIPA’s and the Housing Financial “Crisis”

J. Steven Landefeld
Director

BEA Advisory Committee Meeting
November 7th, 2008
NIPA’s useful framework for examining how we got here and where we might go.

How we got here:

- Rising housing and equity values and declining personal saving: why the NIPA definition of saving out of current income is relevant.
  - In addition to its importance to macro concepts (sustainable growth and external balance), important to analysis of household wealth creation and its effect on the economy.
- Recent experience underlines the importance of integrated balance sheet and flow estimates.
- Also, illustrates trade-off between additions to wealth out of current income and additions through appreciation.
Assets Values and Saving
The NIPA’s as a reality check on asset values:

- Above trend growth in equity prices ultimately must come from:
  - Above trend growth in the economy (technological change) that leads to above trend growth in profits.
  - A growing share of GDP going to profits
  - A growing share of profits coming from higher return on overseas investments
Growth in Equity Prices relative to GDP & NIPA Profits

Nominal GDP
“S&P closing prices”
Domestic Profits from Current Pdn.
Differences in S&P and NIPA Profits

DJIA
- Sept. 1998: 7,910
- Oct. 2002: 8,048
- Sept. 2000: 10,968

Revised Estimate
- Early Estimate
- S&P Profits
Trend Growth in Real GDP

Average annual growth rate

- 1949-1973: 4.15
- 1973-1995: 2.84
- 1995-2007: 3.05
- 1949-2007: 3.42
Stability in Shares of GDI

- Avg: 8.6% Corporate Profits
- Avg: 57.6% Compensation
- Avg: 15.4% Other property Income

www.bea.gov
Profit Share of GDP

% of GDP

Foreign Share of Profits has Gone Up (as has foreign r.o.r. differential in recent years)
Foreign and Domestic Rates of Return

- U.S. Direct Investment Abroad
- Domestic nonfinancial business
- Differential
Long-Term Plans:

- Review of what we are thinking about:
  - New international guidelines: Incorporating SNA 2008, BPM6, etc.
  - Extensions of existing accounts: New real measures, quarterly industry accounts, accelerated regional data, and further integration.
  - Research on updating concepts and methods: offshoring, capital gains, and IIP changes?
  - Infrastructure: Expanded coverage of services, improved sample frames, data sharing, expanded documentation and more efficient data collection, processing, estimation, and dissemination systems
Long term plans:

We welcome your suggestions.