GDP, Taxes, and Trade

Robert G. Kahl, CFA, CPA, MBA

GDP Forecasts

The Atlanta Federal Reserve Bank is known for its GDPNow model because it relies on current economic data without subjective adjustments by economists. On July 30, the Atlanta Fed released its first forecast of real GDP growth of 6.1% for the third calendar quarter. Its forecast declined steadily during the next three months and by October 27, its GDPNow model produced a forecast of 0.2%.

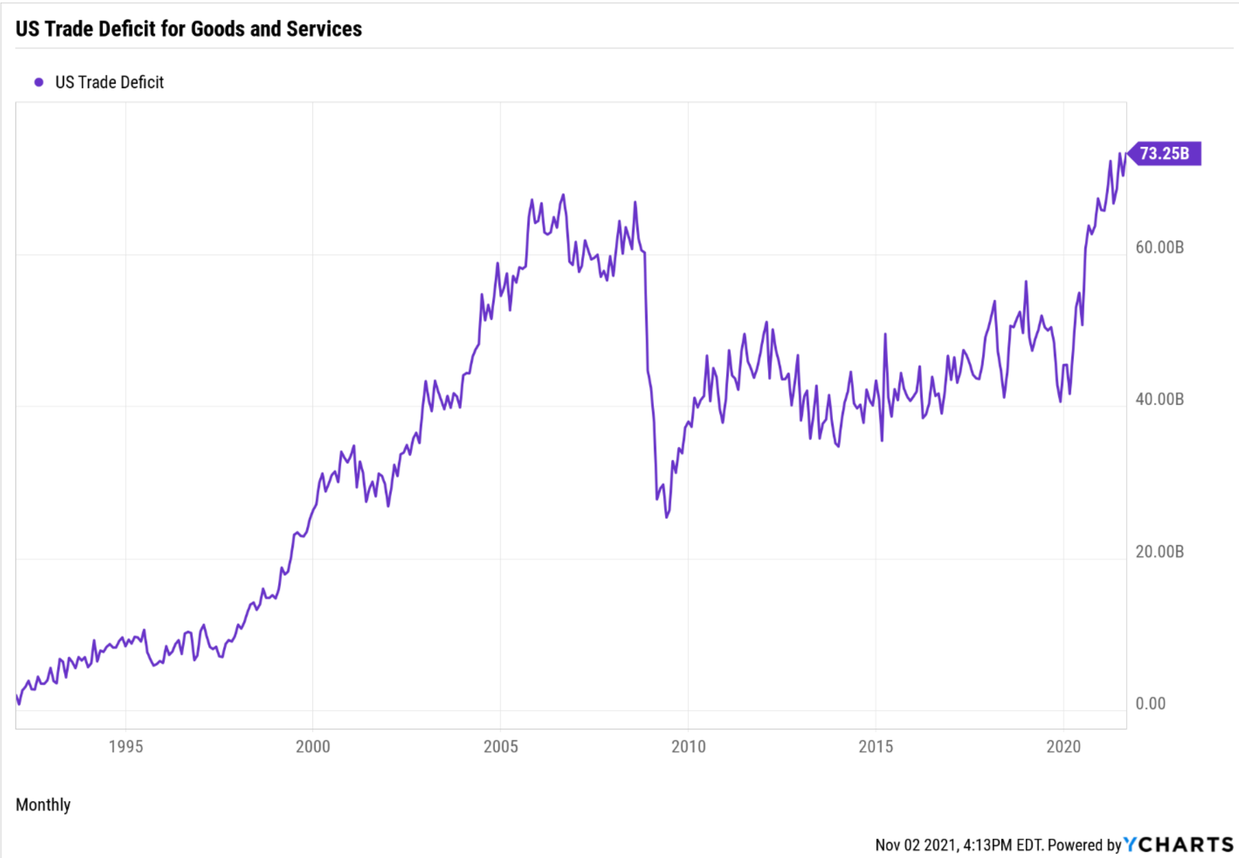
As of November 1, the GDPNow model is forecasting real GDP growth of 8.2% for the fourth quarter, while the consensus from the Blue Chip survey of economists is showing a forecast of 4.8%. The Atlanta Fed includes a disclaimer that their model does not capture "the impact of COVID-19 and social mobility beyond their impact on GDP source data and relevant economic reports that have already been released." The response to COVID-19 is becoming a bigger issue as many government agencies and employers are demanding that employees get the injection(s) or alternatively, face termination of employment. The Blue Chip economists may be factoring this into their forecasts already.

Tax Proposals

There are now three different federal tax proposals in the process of negotiation. The Biden Administration's Fiscal Year 2022 Revenue Proposals (the Greenbook), Build Back Better Act (BBBA) approved by the House Ways & Means Committee, and the Budget Reconciliation Bill released by House Democrats last week. Many of the proposed changes are designed to affect large corporations and wealthier people, but there is something that will impact nearly everyone in the proposals. Lynn Mucenski Keck, CPA contributed an article to Forbes that summarizes the potential tax law changes: Pass-Through Entity Owners Bear The Hit With Proposed Federal Tax Law Changes (forbes.com)

US Trade – The Widening Deficit

The Commerce Department announced that the US trade deficit for goods and services had increased to $73.3 billion for the month of August 2021. The deficit for goods traded was $89.4 billion, offset to some extent by the services surplus of $16.2 billion. Prior to COVID in the first quarter of 2020, the monthly trade deficit was normally in a range of $40-50 billion per month. There do not appear to be any catalysts on the horizon to turn around the US trade imbalance in the near future. Trade deficits at these levels are unsustainable and inconsistent with the "strong dollar" meme.



If you have any questions or comments, please contact me.

Sincerely,
Robert G. Kahl
CFA, CPA, MBA