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How to Talk to Your Clients about …. GDP

With each release of the quarterly GDP report, investors often want to know what this "headline number" means for the markets and their portfolios. Contrary to the media's attention on GDP, we actually believe this report is a poor gauge for making investment decisions. With the third estimate for Q2 GDP (currently at 1.1 percent) to be released on Thursday, here's how we at Astor view GDP and what we see as its inherent drawbacks:

- GDP is a quarterly number, lacking the frequency that many investors desire in an "economic pulse."

- GDP provides a rearview mirror look at the economy over the past quarter; it is not a "now-cast" of the current economy.

- GDP is subject to multiple revisions over the course of several months. The Q1 2016 GDP reading, for example, went from an advance estimate of 0.5 percent, to a second estimate of 0.8 percent and a third estimate of 1.1 percent, and then was further revised to 0.8 percent.

We believe the divergence in the timeliness and accuracy of the data do not make GDP useful for making investment decisions. Rather than rely on the backward-looking GDP headline number, we focus our economic analysis on output indicators for the current quarter, and the near-term trends we see in the economy.

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