

THE ECONOMY & YOU

Gross Domestic Product (GDP), National Income and The Growth Rate

In the news you may often read or hear that the economy is expanding or that the growth rate has slowed. The newscaster reads in a solemn tone that the economy has declined during the last quarter, or that the growth rate was only 2 per cent. How does the growth rate concern us?

Today we will talk about three terms that appear in the news from time to time: the **Gross Domestic Product** or **GDP**, the **National Income** and **the growth rate**.

If you were to measure the economic performance of a firm, you might say that its annual sales totalled \$1 million dollars or that its production was 10,000 cases of rum per month. For the country as a whole, one of the most commonly used measures of economic performance is the gross domestic product or GDP. The GDP is the sum of the money values of all final goods and services produced in a country in a year, or measured in various quarters of the year.

If GDP declines for a number of consecutive periods, then economists start talking about the economy going into recession. At this stage, the number of people without jobs increases, and consumers have less money to purchase the goods and services produced by business; so businesses have to lay off more people, and so the cycle continues. A recession ends when one or more sectors of the economy records an improved performance.

On a more optimistic note, when the value of GDP is increasing, the economy is expanding. Entrepreneurs, small and large, see business opportunities they feel will provide healthy profits, they invest in them, and employ more people.

Incomes rise, and people have more money to spend. How they spend it will determine how much good it does to economies such as ours. But rising incomes do provide investment opportunities for some people.

How do we know when the GDP is increasing? Who measures the total value of all goods and services produced in the country in a year? The statistics offices do this measuring.

Most businesses in the Eastern Caribbean would have received questionnaires from the Statistics Office at some time, and you may have wondered why the government needs to have data on your revenues and costs. Those questionnaires, when completed, form the major source of information for putting together the national income accounts of each country.

The National Income Accounts are like the business accounts of a large corporation. As any good business person will tell you, the accounts help them to keep track of how well the company is doing, and what it is worth; which part is healthy and needs further investment; which parts are not so productive and require changes in strategy. Similarly, the National Income Accounts for a country help us to keep track of how well the economy is doing, and provide a measure of what it is worth in terms of the value of production annually.

The set of accounts that produce the Gross Domestic Product (GDP) show the contribution that different industries make to the economy, and how fast each sector is growing relative to other sectors.

The next time you hear that the growth rate was 5%, remember this means that the total value of all that is produced by all sectors together, was 5% higher this year than it was last year. Some industries will of course have grown faster than others,

and some may even have declined. But the economic performance of the country as a whole increased by 5%.

If you'd like information on the economic performance of a particular sector, we invite you to contact the Statistics Office.