

What is GDP?

The economy's output is measured using the National Accounts which is a system of national-income accounting first developed during the 1920s and 1930s to measure national income or national output. Just like a firm needs accounting to measure income to calculate profits or losses, the entire economy needs an income statement.

Gross Domestic Product (GDP) is the most widely used measure of economic performance around the world. GDP measures the total market value or total spending on all final goods and services produced domestically during a specific period, usually quarters or years. The Australian Bureau of Statistics tracks the economy and releases the figures on GDP on a quarterly basis. It takes just over two months after the end of quarter to publish the data which tends to get revised over subsequent quarters and even years.

What counts in GDP?

- Only FINAL goods and services purchased by final users. Only retail sales count, not intermediate (wholesale) goods or transactions. When Holden buys steel, tyres or transmissions, those transactions don't count because it would be double counting since those expenditures will be accounted for in the final retail price of the car. For example, suppose Holden spends \$15,000 for a car and sells it to a dealer for \$16,000 and the dealer sells it for \$17,000. We only count the \$17,000 for the final retail sale. We can't count $\$15,000 + \$16,000 + \$17,000 = \$48,000$. Only the value of the final output is counted, and the value of the inputs is not directly counted since their value is reflected in the final purchase price.
- Only goods and services produced during the time period are counted. Only new production is counted, not secondhand sales. Example: sales of used cars and used houses don't count. They were already counted as new production in the year built. Resale doesn't get counted in current GDP. Commissions on used cars or houses would get counted, because they are current services.
- Financial transactions and income transfers are excluded. Example: stock or bond purchase is just a transfer of money from one individual to another; it does not involve current production of a good or service. Commissions would count, as a current service (income) provided by the broker. Gifts and income transfers (Social Security, welfare, other pensions, etc.) also don't count, since no current production of goods or services is involved.
- Only domestic production is counted, regardless of who provided the labour. Foreign citizens working in the Australia count toward Australian GDP, since their labour contributed to "domestic production." Australian citizens working temporarily overseas does NOT count in Australian GDP, since their labour does not contribute to "domestic production."