

CHART OF THE DAY: Cash-For-Clunkers MASSIVELY Distorted GDP

Vincent Fernando|Oct. 29, 2009, 2:13 PM

If anyone mentions the just-released 3.5% U.S. third quarter GDP growth, just throw this chart in their face. Cash for Clunkers clearly distorted the U.S. economic figures in an unsustainable fashion.

According to the Bureau of Economic Analysis (BEA), motor vehicle output spiked a seasonally-adjusted 157.6% quarter on quarter. This is completely unprecedented. Vehicle output is clearly going off a cliff next quarter. The question will be how low can the blue line below go.

Next quarter, we won't just be returning to business as usual for auto output. Don't forget that Cash for Clunkers pulled future auto demand, ie. some of Q4 demand, into Q3. Thus Q4 is likely to be very weak since many people who planned to buy a car in Q4 probably took advantage of Clunkers and bought in Q3.

To put this into GDP terms, according to the BEA the spike you see below added 1.66% to the U.S. GDP growth figure reported. Thus without it, GDP growth would have been only 1.89% (3.5% - 1.66%) in Q3.

Now imagine if next quarter the blue line below goes down into negative territory as it did just two quarters ago. **Next quarter, not only are we unlikely to get Q3's boost, but motor vehicle output data could subtract from GDP as well.** So watch out for the cliff...

<http://www.businessinsider.com/chart-of-the-day-motor-vehicle-output-2009-10>