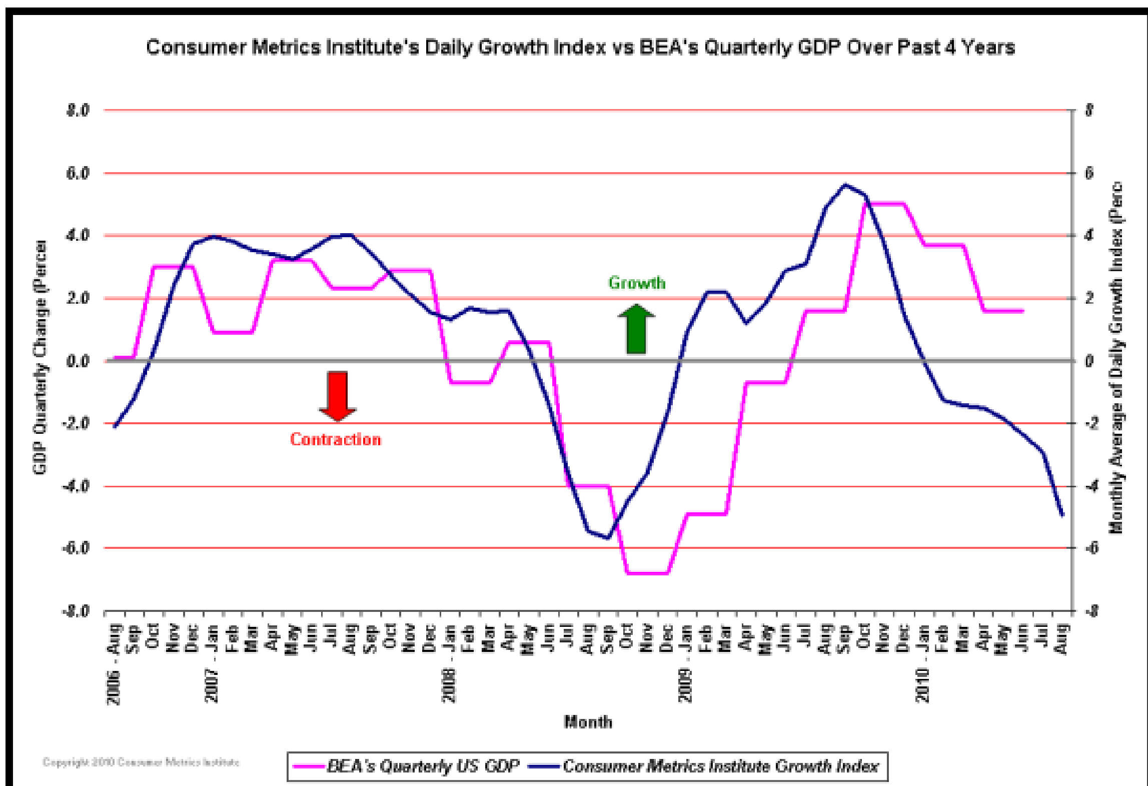
Consumer Metrics Institute News

August 28, 2010: Inside the BEA's Latest GDP Numbers

On August 27, the Bureau of Economic Analysis ("BEA") of the U.S. Department of Commerce revised downward their previously reported measurement of the U.S. Economy's growth for the 2nd quarter of 2010. The newly reported annualized growth rate is 1.6%, down from a 2.4% rate published just 28 days earlier -- a 33% downward revision of the growth rate in four weeks. The BEA now reports that the past three quarters of annualized GDP growth have been (in sequence from Q4-2009) 5.0%, 3.7% and 1.6% -- with the rate dropping 2.1% from Q1-2010 to Q2-2010, the sharpest decline in the annualized growth rate since the summer of 2008.



Another quarter like the second quarter would put the entire economy into governmentally admitted contraction, despite the nearly $649 billion in stimulus spent or in the process of being spent. With only about $143 billion remaining between unstarted projects and unclaimed tax cuts, it is hard to see how the residual stimulus funds will reverse the trends obvious in the above chart.

Another set of numbers within the BEA report addresses a more natural part of any economic cycle: the tendency of factories and distribution channels to over-correct inventory levels during times of economic expansion or contraction. Over recent quarters factories had been building inventory levels in anticipation of a sharp and sustained recovery from the "Great Recession". During the past three quarters that inventory building added 2.83%, 2.64% and 0.63% to the published GDP numbers. Notice the drop between the last two numbers; that more than 2% drop

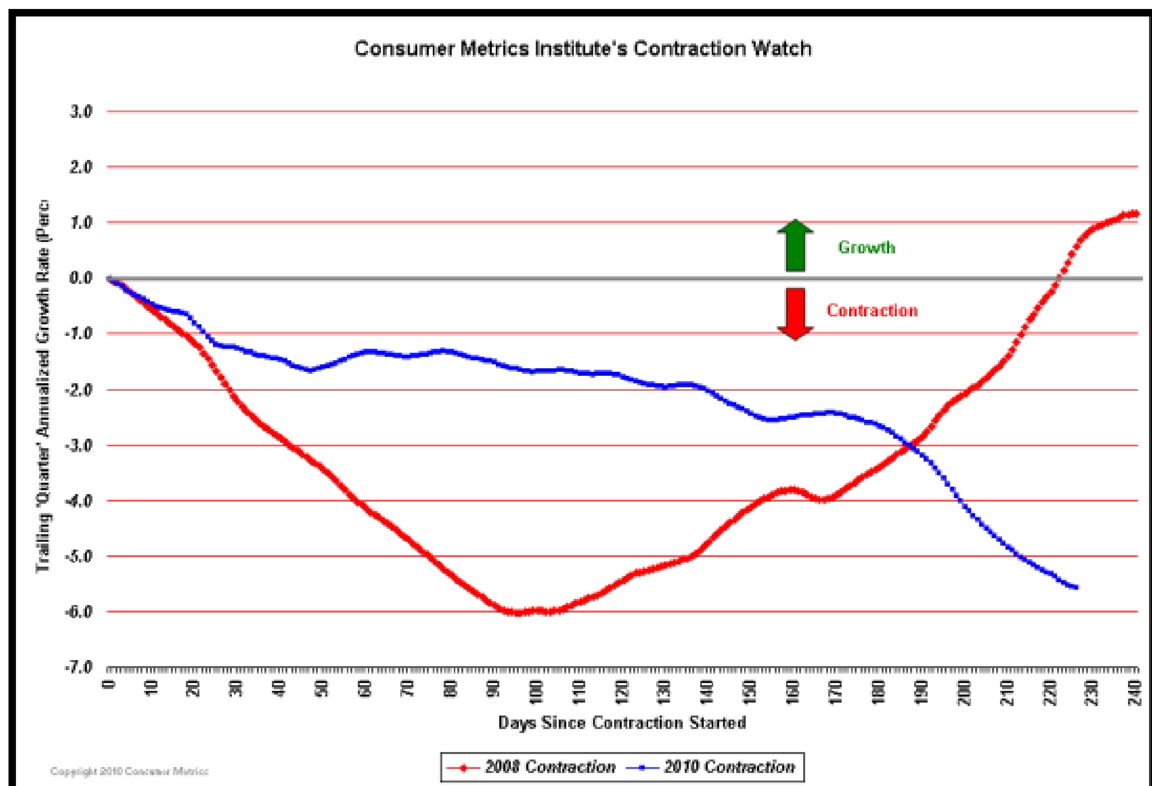
in that inventory component from Q1-2010 to Q2-2010 mirrors the reported 2.1% decline in the overall GDP growth rate -- indicating that the cutback in inventory build-ups alone can explain most of the quarterly drop in the published growth rate. During the "Great Recession" of 2008 the inventory adjustments swung sharply negative, lowering the published GDP by as much as 2.31% during the fourth quarter of 2008. It is clear from the 2% drop between Q1-2010 and Q2-2010 that the current cycle of inventory building has collapsed. If the BEA's (often late arriving) inventory data should swing negative (as it did in the third quarter of 2007), the published numbers for the third quarter 2010 GDP could well be negative.

As the chart above shows, our measurements of on-line consumer demand for discretionary durable goods are substantially more negative than the BEA's published GDP for the full economy. Our year-over-year Daily Growth Index peaked in August, 2009 and started net year-over-year contraction on January 15, 2010. Our numbers differ from the BEA's for a number of reasons (more fully explained in several of our FAQs), but suffice it to say that:

-- The only portions of the $649 billion in spent stimulus reflected in our data are the consumer packages (such as "Cash for Clunkers" and the Housing Tax Credits), which both contributed to our August 2009 peak and have now lapsed;

-- Our consumers and the types of purchases we track them buying are leading and highly volatile -- which is precisely why we track them.

We constructed our indexes to provide an advanced look at how an economic cycle is progressing. The best tool we have for that is our "Contraction Watch", which overlays graphically the day-by-day progression of the current 2010 contraction onto the "Great Recession" of 2008:



In the above chart the two contractions are aligned on the left margin at the first day during each event that our Daily Growth Index went negative, and they progress day-by-day to the right tracing out the daily rate of contraction.

The key take-away from our "Contraction Watch" is that the profile of this contraction episode is different, principally (at this stage) in the longevity of the event. The "Great Recession" had a contraction duration of 221 days. The current 2010 contraction event has already lasted longer, and we cannot even begin to guess when it might end. Several months ago we had commented that the shape of the current 2010 contraction episode was developing in a relatively mild but persistent manner -- likening it to a "walking pneumonia", in sharp contrast to 2008's "call 911" severity. That analogy is no longer valid.

If we realize that the total economic pain inflicted by a contraction event is a function of both the daily contraction rate and the duration of the event, then the best measure of that pain is simply the area in the above chart between each of the curves and the gray "zero" axis. The "Great Recession" of 2008 accumulated slightly over 793 negative-percent-contraction-days. Within a week, current 2010 event will be over 500, and even should it suddenly reverse and trace out a 2008-like recovery arc, the total pain will be very near 2008's total. Given our data on how political "Fear, Uncertainty and Doubt" negatively impacted consumer spending on discretionary durable goods in 2008, we anticipate no miraculous upsurge in U.S. consumer discretionary spending before November 2.

Barring some sudden reversal in consumer attitudes and habits, the 2010 economic slowdown will be longer and at least as painful as the one experienced in 2008. Furthermore, the shape of this contraction event indicates that it is probably not an independent "double dip", but simply a continuation of the "Great Recession" of 2008 after a few quarters of now lapsed consumer stimulation.

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