Consumer Metrics Institute News

November 23, 2010: First Revision to the Third Quarter GDP

The Bureau of Economic Analysis' ("BEA") "Second Estimate" of the Third Quarter 2010 Gross Domestic Product ("GDP") had a headline annualized growth rate of 2.5% for the U.S. economy, and increase of 0.5% from the first (or "Advance Estimate") published at the end of October. As a quick reminder, the classic definition of the GDP can be summarized with the following equation:

GDP = private consumption + gross private investment + government spending + (exports − imports)

or, as it is commonly expressed in algebraic shorthand:

GDP = C + I + G + (X-M)

For the third quarter of 2010 the values for that equation (total dollars, percentage of the total GDP, and contribution to the final percentage growth number) are as follows:

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M)
Annual $ (trillions)	$14.7	=	$10.4	+	$1.9	+	$3.0	+	$-0.6
% of GDP	100.0%	=	70.7%	+	12.9%	+	20.4%	+	-4.0%
Contribution to GDP Growth %	2.5%	=	2.0%	+	1.5%	+	.8%	+	-1.8%

A more detailed look at the numbers breaks out the total annualized growth percentage for the GDP into its component parts. In the table below we have further split the "C" component into goods and services, split the "I" component into fixed investment and

inventories, separated exports from imports, and listed the quarters in columns with the most current to the left:

Quarterly Changes in % Contributions to GDP

	3Q-2010	2Q-2010	1Q-2010	4Q-2009	3Q-2009	2Q-2009	1Q-2009
Total GDP Growth	2.5%	1.7%	3.7%	5.0%	1.6%	-0.7%	-4.9%
Consumer Goods	0.81%	0.79%	1.29%	0.42%	1.62%	-0.32%	0.41%
Consumer Services	1.16%	0.75%	0.03%	0.27%	-0.21%	-0.79%	-0.75%
Fixed Investment	0.20%	2.06%	0.39%	-0.12%	0.12%	-1.26%	-5.71%
Inventories	1.30%	0.82%	2.64%	2.83%	1.10%	-1.03%	-1.09%
Government	0.81%	0.80%	-0.32%	-0.28%	0.33%	1.24%	-0.61%
Exports	0.77%	1.08%	1.30%	2.56%	1.30%	-0.08%	-3.61%
Imports	-2.52%	-4.58%	-1.61%	-0.66%	-2.67%	1.55%	6.48%

The 0.5% upward revision to the GDP came from the following sources: Consumer Goods, +0.17%; Consumer Services, +0.01%; Fixed Investment (construction), +0.10%; Inventories, -0.14%; Government, +0.13%; Exports, +0.16%; and Imports, +0.09%. Except for the negative effect from inventories building less than previously estimated, the new report shows mild but broadly based improvements. For the economy as a whole, the BEA's actual bottom line is the "real final sales of domestic product" (the net sum of all the GDP components except the inventory adjustment). By that measure the third quarter economy grew at a 1.2% annualized rate.

Frankly, we had not expected an upward revision in the reported numbers, based on our year-over-year measurements of on-line consumer demand. If we try to reconcile our measures of the economy to the BEA's report by fully embracing the BEA's almost bizarre arithmetic:

-- The headline number of 2.5% growth includes about 1.3% created by inventory building at factories and within product distribution channels. Taking that out of the headline number reduces the GDP to about a 1.2% annualized growth. This figure is actually cited by

the BEA each quarter as their "real final sales of domestic product," and it is generally viewed as a more accurate indicator of the true growth of the economy.

-- The official BEA number also includes a 0.77% contribution from exports, which is not generated by domestic U.S. consumer demand. Backing that out of the "real final sales of domestic product" results in a 0.43% annualized growth rate for "real final" domestic spending.

-- Governmental and commercial spending contributed another 1.01% to the headline growth. Again, this does not reflect consumer demand. Removing those factors from the above chain of calculations results in a -0.58% contraction rate for real final domestic consumer spending.

-- Consumer spending on services added roughly 1.16% to the headline number. We only capture consumer demand for discretionary durable goods, which in large part excludes purchases of services. In order to reconcile our data to the BEA's we also need to subtract that 1.16%, lowering the real final domestic consumer spending on domestic goods to a -1.74% annualized contraction rate.

-- While we are at it, if we fully embrace the BEA's creative arithmetic, that annualized contraction rate can be approximated more directly by combining the BEA's reported consumer consumption of domestically generated goods (0.81%) with the GDP figure for imports (which contributed -2.52%) -- thereby including the domestic consumption of imported foreign oil, autos and Chinese manufactured goods. This surreal math is a consequence of the BEA's focus on "domestic product," which requires them to subtract net foreign trade from the gross numbers.

Using the BEA's math, the net -1.74% GDP number for net domestic consumer demand of goods corresponds to our Daily Growth Index on May 13, 2010, leading the mid-point of the BEA's 3Q-2010 time frame by about 12 weeks. When looking at all these comparisons it is important to remember that although our Daily Growth Index should be leading, it also measures only demand for discretionary durable goods and should therefore also be somewhat amplified. Both of these factors should be considered when comparing our data to the BEA's.

The jobs environment has been the bottom line in this recession. Looking at the positive line items in the BEA's 3Q-2010 for news about the jobs environment raises some caution:

-- The growth in exports has primarily benefited major corporations. These same corporations have been growing margins over the past

year by cutting jobs, and now appear reluctant to start major re-hiring.

-- The growth in governmental spending has probably peaked, with both the future impact of Federal ARRA spending capped and with local governments being forced to deal with looming deficits.

We have said before that the real consequences of the "Great Recession" on U.S. consumers were triggered by rising energy prices, dropping home values and persistent unemployment. Until something dramatically turns around in those specific areas consumer demand for discretionary durable goods is not likely to improve.

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