Consumer Metrics Institute News

March 25, 2011: The BEA's Third Estimate of Fourth Quarter 2010 GDP

The Bureau of Economic Analysis (BEA) raised their estimate of the annualized growth rate of the fourth quarter 2010 U.S. Gross Domestic Product (GDP) from 2.79% to 3.11%, an increase of .32% and some 0.56% higher than their estimate of the third quarter's annualized growth rate of 2.55%. The revisions reflected somewhat weaker consumption of durable goods, stronger fixed investments, less inventory draw downs, weaker trade numbers, and increased contraction in governmental expenditures than previously reported. The "Third Estimate" is the last regularly scheduled report for the fourth quarter 2010 GDP, although the BEA has occasionally revised quarterly data subsequent to the "Third Estimate" and generally adjusts a number of prior quarters as part of their annual July revisions.

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 fourth 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)	$14.9	=	$10.5	+	$1.8	+	$3.0	+	$-0.5
% of GDP	100.0%	=	70.8%	+	12.1%	+	20.4%	+	-3.3%
	3.11%	=	2.79%	+	-2.61%	+	-0.34%	+	3.27%

Contribution to GDP Growth %

The quarter-to-quarter changes in the contributions that the components make can be best understood from the table below that breaks out the component contributions in more detail and over time. In the table 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

	4Q-2010	3Q-2010	2Q-2010	1Q-2010	4Q-2009	3Q-2009	2Q-2009	1Q-2009
Total GDP Growth	3.11%	2.55%	1.72%	3.72%	5.02%	1.59%	-0.69%	-4.88%
Consumer Goods	2.10%	0.94%	0.79%	1.29%	0.42%	1.62%	-0.32%	0.41%
Consumer Services	0.82%	0.74%	0.75%	0.03%	0.27%	-0.21%	-0.79%	-0.75%
Fixed Investment	0.80%	0.18%	2.06%	0.39%	-0.12%	0.12%	-1.26%	-5.71%
Inventories	-3.42%	1.61%	0.82%	2.64%	2.83%	1.10%	-1.03%	-1.09%
Government	-0.34%	0.79%	0.80%	-0.32%	-0.28%	0.33%	1.24%	-0.61%
Exports	1.06%	0.82%	1.08%	1.30%	2.56%	1.30%	-0.08%	-3.61%
Imports	2.21%	-2.53%	-4.58%	-1.61%	-0.66%	-2.67%	1.55%	6.48%

Most of this report's increased growth come from two components:

-- Fixed investments contributed 0.23% more to the headline number.

-- Inventory draw-downs subtracted 0.28% less from the headline number.

And several components contributed less to the annualized growth than previously reported:

-- Lower consumption of consumer durable goods dropped the growth rate by 0.10%.

-- Net trade similary contributed 0.08% less to the annualized growth.

-- And governmental expenditures contracted at a rate that pulled the GDP growth lower by 0.04%.

It should be noted that none of the changes noted above are statistically significant. And readers should remember that the changes reflect only report-to-report data improvements for the same time period -- not actual month-to-month changes in the economy. With those caveats in mind, it is interesting to note that the upward revisions came predominantly from non-residential fixed investments and inventories. Again, consumers, governments and trade were contributing less to growth during the fourth quarter of 2010 than the BEA had previously reported. The revisions confirm the conservative nature of the guesses used by the BEA in constructing even their "Second Estimate" reports, causing them to underestimate dynamic shifts in the economy.

The price indexes used for this revision were only modestly changed from the previous report. Again the overall price "deflater" reflected an annualized 0.4% inflation rate. The importance of this low deflater cannot be over emphasized: if the average monthly CPI-U for the fourth quarter is annualized and used as an alternate deflater, the growth reported for the fourth quarter simply vanishes.

We continue to feel that the quality of traditional economic data drops sharply during times of dynamic changes in the economy or during periods of unprecedented monetary or fiscal interventions on the part of the government. This report clearly covers such a time, and when coupled with a price deflater that strains credibility, the value of this report as a true indication of the health of the economy may be (at best) marginal.