Consumer Metrics Institute News

April 28, 2011: The BEA's Advance Estimate of First Quarter 2011 GDP

The Bureau of Economic Analysis' (BEA) first ("Advance") estimate of the annualized growth rate of the first quarter 2011 U.S. Gross Domestic Product (GDP) was 1.75%, down significantly from the 3.11% growth rate reported for the fourth quarter of 2010. When compared to the prior quarter the lower growth was caused by a number of factors**:** somewhat weaker consumption of durable goods, weaker fixed investments, substantially weaker overall trade numbers, and increased contraction in governmental expenditures. The only improving factor was stronger inventory growth, which reverted to form after an anomalous fourth quarter reduction (most likely driven by a noisy, if not aberrant, price "deflater").

The BEA also reminded us that their "Advance" GDP growth estimate differs on average about 1.2% from their eventual third (i.e., "Final") growth estimate, and that in July they will *restate previously reported growth rates dating back to the first quarter of 2003*. Those restated growth rates are not necessarily minor: last July we learned that the "Great Recession" was worse (by as much as a percent in nearly every quarter) than previously reported, and that the bottom of the recession occurred a quarter earlier than we had been previously been told.

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 first quarter of 2011 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)

Annualized Current $ (trillions)	$15.0	=	$10.7	+	$1.9	+	$3.0	+	$-0.6
% of GDP	100.0%	=	71.2%	+	12.4%	+	20.2%	+	-3.8%
Contribution to GDP Growth %	1.75%	=	1.91%	+	1.01%	+	-1.09%	+	-0.08%

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

	1Q-2011	4Q-2010	3Q-2010	2Q-2010	1Q-2010	4Q-2009	3Q-2009	2Q-2009	1Q-2009
Total GDP Growth	1.75%	3.11%	2.55%	1.72%	3.72%	5.02%	1.59%	-0.69%	-4.88%
Consumer Goods	1.12%	2.10%	0.94%	0.79%	1.29%	0.42%	1.62%	-0.32%	0.41%
Consumer Services	0.80%	0.70%	0.74%	0.75%	0.03%	0.27%	-0.21%	-0.79%	-0.75%
Fixed Investment	0.09%	0.80%	0.18%	2.06%	0.39%	-0.12%	0.12%	-1.26%	-5.71%
Inventories	0.93%	-3.42%	1.61%	0.82%	2.64%	2.83%	1.10%	-1.03%	-1.09%
Government	-1.09%	-0.34%	0.79%	0.80%	-0.32%	-0.28%	0.33%	1.24%	-0.61%
Exports	0.64%	1.06%	0.82%	1.08%	1.30%	2.56%	1.30%	-0.08%	-3.61%
Imports	-0.72%	2.21%	-2.53%	-4.58%	-1.61%	-0.66%	-2.67%	1.55%	6.48%

The most recent quarter's overall slower growth resulted from weaknesses in several parts of the economy:

-- Changes in net foreign trade pulled the headline growth number down by 3.35%.

-- Fixed investments contributed 0.79% less to the headline number.

-- Shrinking governmental expenditures lowered the GDP growth by 0.75%.

-- And lower consumption of consumer durable goods dropped the growth rate by

0.67%.

Only one component contributed significantly to the annualized growth when compared to 4Q-2010:

-- Inventory building added 4.35% to the headline number.

At this time last quarter we were concerned that large swings (greater than 5%) in the contributions being made by the foreign trade and inventory numbers dwarfed the overall changes. Now we see those large swings reversed and reverting to their multi-quarter trend lines, indicating perhaps that aberrant Q4-2010 deflaters did indeed impact the substance and quality of the fourth quarter's reports.

Absent those swings, the data shows that the recovery remains weak. Again, consumers, governments and commercial investments were contributing less to growth during the first quarter of 2011 than during the fourth quarter of 2010.

The BEA often highlights the "real final sales of domestic product" (GDP less the change in private inventories) as a good indication of the overall state of the economy. In this report the annualized growth rate for real final sales of domestic product was 0.8%, down sharply from the 6.7% growth rate reported for Q4-2010 (and cited by some media analysts as further confirmation of a strengthening recovery). Again the 0.8% number is a reversion to the trend line established during the first three quarters of 2010. In fact a cynical read of last quarter's 6.7% rate might be that it was also merely an aberration caused by the Q4-2010 price indexes.

Although the price indexes used for this quarter (representing an aggregate 1.9% annualized inflation rate) are higher than the credibility stretching ones used for Q4-2010 (which representing an astonishingly low 0.4% annualized inflation rate), they are still significantly lower than the inflationary numbers published by the BEA's sister agencies. The Bureau of Labor Statistics (BLS) has most recently reported that the quarter ending year-over-year CPI-U rate for all items was 2.7%, even as the foreign trade price indexes showed year-over-year changes in excess of 9%. The importance of persistently low deflaters cannot be over emphasized**:** if the year-over-year CPI-U at the end of the first quarter is used as an alternate deflater, real final sales actually contracted during the first quarter. Even more alarming**:** using the first quarter's average monthly CPI-U rates (a 5.75% annualized rate) would cause the entire GDP to be contracting at over a 2% rate.

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). But if the Federal Reserve had set out to engineer an economic report that would further justify Quantitative Easing while not sending shock waves through the equity markets, this "still recovering but at a much slower rate than we might like" report provides exactly what they would like to see.