Consumer Metrics Institute News

May 26, 2011: The BEA's Second Estimate of First Quarter 2011 GDP

The Bureau of Economic Analysis (BEA) kept their estimate of the annualized growth rate of the first quarter 2011 U.S. Gross Domestic Product (GDP) essentially unchanged at 1.84%. Although the overall growth rate was essentially unchanged the component contributions to the growth rate did shift somewhat, with personal consumption nearly .4% weaker than previously reported and industrial production stronger by about the same amount. Both exports and imports grew relative to the prior report, offsetting their respective contributions to the overall growth rate. The improvements in the industrial components came from both fixed investments and inventory building, and the growth of "real final sales of domestic product" continued to be anemic at 0.65% -- down from the 0.82% rate reported a month earlier.

And once again the BEA used an overall "price deflater" that reflected an annualized inflation rate of 1.9%.

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)
Annual $ (trillions)	$15.0	=	$10.7	+	$1.9	+	$3.0	+	$-0.6
% of GDP	100.0%	=	71.0%	+	12.5%	+	20.2%	+	-3.8%

Contribution to GDP Growth %	1.84%	=	1.53%	+	1.45%	+	-1.07%	+	-0.06%

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	1.84%	3.11%	2.55%	1.72%	3.72%	5.02%	1.59%	-0.69%	-4.88%
Consumer Goods	0.83%	2.10%	0.94%	0.79%	1.29%	0.42%	1.62%	-0.32%	0.41%
Consumer Services	0.69%	0.70%	0.74%	0.75%	0.03%	0.27%	-0.21%	-0.79%	-0.75%
Fixed Investment	0.26%	0.80%	0.18%	2.06%	0.39%	-0.12%	0.12%	-1.26%	-5.71%
Inventories	1.19%	-3.42%	1.61%	0.82%	2.64%	2.83%	1.10%	-1.03%	-1.09%
Government	-1.07%	-0.34%	0.79%	0.80%	-0.32%	-0.28%	0.33%	1.24%	-0.61%
Exports	1.16%	1.06%	0.82%	1.08%	1.30%	2.56%	1.30%	-0.08%	-3.61%
Imports	-1.22%	2.21%	-2.53%	-4.58%	-1.61%	-0.66%	-2.67%	1.55%	6.48%

In the longer view the BEA reported that the year-over-year (trailing twelve month) change in the "real" GDP was 2.3%, the lowest year-over-year growth rate reported since 2009. And governmental expenditures at all levels continued to shrink, with the new "austerity" at the Federal level (i.e., expiring stimuli) shaving 0.68% off of the overall growth rate, and genuine state and local frugality dropping the headline growth rate by another 0.39%.

The importance of the price deflater used by the BEA cannot be overstated. In calculating the "real" GDP the BEA continued to use an overall 1.9% annualized inflation rate, which is substantially lower than the inflation rates being reported by any of the BEA's sister agencies. The mathematical implications of the deflater are simple: a lower deflater creates a higher "real" GDP reading. If April's CPI-U (as reported by the Bureau of Labor Statistics) of 3.2% year-over-year inflation is used as the deflater, the reported 1.84% annualized growth rate shrinks to a 0.56% annualized rate, and the "real final sales of domestic products" is actually contracting at a 0.63% rate. If instead of the year-over-year CPI-U we were to use the annualized CPI-U from just the first quarter (5.7%), the "real" GDP would be shrinking at a 1.82% annualized rate, and the "real final sales of domestic products" would be contracting at a recession-like 3.01%.

Although the overall reported headline rate for the GDP remained essentially unchanged, the numbers reflected somewhat weaker consumer contributions and anemic "real final sales" -- all while using a price deflater that strains credibility. But the published end result might be exactly what Mr. Bernanke would like to see as a justification for extending the Federal Reserve's "Quantitative Easing" programs**:** pitiful growth in desperate need of further intervention.