Consumer Metrics Institute News

June 24, 2011: The BEA's Third (and "Final") Estimate of First Quarter 2011 GDP

The Bureau of Economic Analysis (BEA) revised their estimate of the annualized growth rate of the first quarter 2011 U.S. Gross Domestic Product (GDP) up slightly to 1.92%. This is their third and final regularly scheduled estimate of the first quarter's growth rate, although sweeping revisions of prior estimates can occur at the end of each July.

(Last July's set of revisions to quarterly data were especially severe, lowering the already dismal quarterly results for most of the "Great Recession" by as much as a percent and shifting the recession's economic "bottom" by a full quarter -- all done without much media coverage. The more cynically disposed might conclude that a politically sensitive BEA generates headlines based on positively biased guesstimates while quietly getting the number "right" long after anyone but the academicians care. The next mass revisions of history will occur on July 29, and we expect that the more significant changes will be to the previously generally positive results for 2010.)

Although the overall growth rate was essentially unchanged, the component contributions to the growth rate did shift somewhat. Since the BEA freely admits that the earliest estimates for any quarter are based on incomplete data and their assumptions about the economy's likely performance, estimate-to-estimate changes reflect how the biases in those assumptions differ from the late arriving real data. These surprises indicate that (relative to the BEA's presumptions):

-- The personal consumption of goods increased, while declines in the personal consumption of services more than offset those gains.

-- Commercial investment was weaker, while inventories grew more than they expected.

-- Governmental expenditures at all levels were dropping faster than they had imagined.

-- Both directions of foreign trade were lighter than previously assumed, with both exports and imports lowered in such a way that the net remained essentially unchanged at a $562 billion drain on the economy. Lower gross trade numbers may be indicating an increasingly fragile global economy.

The "real final sales of domestic product" was reported to have an annualized growth rate of 0.61% (down from the .65% rate last published and down even further from the .82% first guesstimate). By any standard this "real final sales" figure is anemic, and it continues to reflect how much of the headline growth number comes from inventory building -- which at some point must inevitably reverse.

The BEA raised their "price deflater" for the annualized inflation rate to 2.0% (from the 1.9% utilized in the prior reports). The 2.0% inflation rate remains curiously low, especially given that their sister Bureau of Labor Statistics (BLS) reported that the non-seasonally adjusted Consumer Price Index (CPI-U) for all items grew more than 2.1*% during the first quarter alone*, which (when annualized) works out to be something like an 8.7%. Even the unadjusted year-over-year CPI-U change was 3.2%, with the number clearly accelerating over the past couple of quarters. Again, the "deflating" arithmetic used by the BEA means that an understated inflation rate translates into an overstated economic growth.

The Numbers

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 %	1.92%	=	1.52%	+	1.47%	+	-1.20%	+	.13%

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	1.92%	3.11%	2.55%	1.72%	3.72%	5.02%	1.59%	-0.69%	-4.88%
Consumer Goods	0.91%	2.10%	0.94%	0.79%	1.29%	0.42%	1.62%	-0.32%	0.41%
Consumer Services	0.61%	0.70%	0.74%	0.75%	0.03%	0.27%	-0.21%	-0.79%	-0.75%
Fixed Investment	0.16%	0.80%	0.18%	2.06%	0.39%	-0.12%	0.12%	-1.26%	-5.71%
Inventories	1.31%	-3.42%	1.61%	0.82%	2.64%	2.83%	1.10%	-1.03%	-1.09%
Government	-1.20%	-0.34%	0.79%	0.80%	-0.32%	-0.28%	0.33%	1.24%	-0.61%
Exports	0.97%	1.06%	0.82%	1.08%	1.30%	2.56%	1.30%	-0.08%	-3.61%
Imports	-0.84%	2.21%	-2.53%	-4.58%	-1.61%	-0.66%	-2.67%	1.55%	6.48%

Summary

Governmental expenditures at all levels continued to shrink, with the new "austerity" at the Federal level (i.e., expiring stimuli) shaving 0.69% off of the overall growth rate, and genuine state and local frugality dropping the headline growth rate by another 0.51% (increasing from the .39% economic drag previously reported). This is a sharp reversal from as recently as the second quarter of 2010, when increased governmental spending was adding .80% to the entire economy's annualized growth rate. There is no reason to expect the downward trend in governmental expenditures to change anytime soon.

If the BLS CPI-U of 3.2% year-over-year inflation is used as the deflater, the reported 1.92% annualized growth rate shrinks to a 0.73% annualized rate, and the "real final sales of domestic products" is actually contracting at a 0.55% rate. Using an annualization of the unadjusted BLS data for the change in CPI-U during just the first quarter (an alarming 8.72% annualized), the "real" GDP would be shrinking at a 4.36% annualized rate.

Personal savings dropped to a 5.1% of personal income, after reaching as high as 6.2% during the second quarter of 2010. This would indicate that people are either feeling better about the economy and spending more, or things are tighter and savings have become more difficult. Some indication can be provided by the overall "real" per capita disposable personal income, which grew only 1.26% year-over-year (using the optimistic 2.0% BEA inflation rate). Using the BLS year-over-year unadjusted CPI-U rate that number drops to a minuscule 0.08% for the entire year. But using real world price changes experienced by consumers during the first quarter that number goes negative -- feeling to consumers something like a -5.0% annualized drop in per capita disposable income.

Although the overall reported headline rate for the GDP remained largely unchanged, the numbers reflected weaker governmental spending and very weak "real final sales" -- all while using a highly favorable price deflater. As we have mentioned before, this kind of poor growth plays right into the hands of the Federal Reserve's "Quantitative Easing" apologists. If this kind of growth continues for the rest of the year (or more likely weakens) some form of QE should be expected to resume before the end of the year.
