Consumer Metrics Institute News

August 26, 2011: BEA Lowers Second Quarter GDP Growth Rate to Below 1%

The Bureau of Economic Analysis's (BEA) second estimate of second quarter 2011 U.S. Gross Domestic Product (GDP) was reported to be 0.98%, continuing their recent trend of revising previously reported economic growth rates down. The new growth number is .31% lower than the number reported only last month for the same quarter, removing nearly a quarter of the previously estimated the growth rate. The new report shows a uniformly stagnant economy far weaker than we might expect some 8 quarters into a normal recovery.

Among the "highlights" from the report**:**

-- Aggregate consumer expenditures for goods was still reported to be contracting during the second quarter, reducing the overall growth rate of the economy by a -0.34% rate.

-- Consumer expenditures for services increased, but at an anemic 0.64% annualized growth rate.

-- The growth rate of private fixed investments was the best news in the report, although even it increased at a weak annualized 1.01% rate.

-- Inventories are now reported to have been drawn down during the quarter, indicating that production has slowed even faster than demand. The revised estimate of inventory levels caused the overall growth rate to be reduced by a -0.23% annualized rate.

-- Total expenditures by governments at all levels continued to shrink, reducing overall economic activity at a -0.18% annualized rate.

-- Exports weakened materially relative to the earlier report, halving the contribution that they made to the overall GDP growth rate to 0.41%.

-- Imports increased somewhat, removing -0.33% from the growth rate of the overall economy.

-- The growth rate of "real final sales of domestic product" rose to an annualized 1.21%, largely on the strength of the fixed investments and draw-down of inventories.

-- The effective "deflater" used by the BEA to offset the impact of inflation was 2.51%, still substantially below the rates reported by their sister agencies. Substituting the current inflation rate published by the Bureau of Labor Statistics (actual year-over-year CPI-U of 3.6%) for the rate used by the BEA causes the entire reported GDP growth rate to disappear.

The Numbers (as Revised)

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 â 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%	=	71.1%	+	12.6%	+	20.3%	+	-4.0%
Contribution to GDP Growth %	0.98%	=	0.30%	+	0.79%	+	-0.18%	+	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, added a line for the BEA's "Real Finals Sales of Domestic Product" and listed the quarters in columns with the most current to the left *(please note that nearly all of the numbers below for earlier quarters are changed from our previous commentary tables)***:**

Quarterly Changes in % Contributions to GDP

	2Q-2011	1Q-2011	4Q-2010	3Q-2010	2Q-2010	1Q-2010	4Q-2009	3Q-2009	2Q-2009	1Q-2009
Total GDP Growth	0.98%	0.36%	2.36%	2.50%	3.79%	3.94%	3.81%	1.69%	-0.69%	-6.66%
Consumer Goods	-0.34%	1.10%	1.87%	1.09%	0.87%	1.45%	0.12%	1.70%	-0.52%	0.05%
Consumer Services	0.64%	0.36%	0.61%	0.75%	1.18%	0.47%	0.21%	-0.04%	-0.76%	-1.07%

Fixed Investment	1.01%	0.15%	0.88%	0.28%	2.12%	0.15%	-0.42%	0.13%	-2.26%	-5.09%
Inventories	-0.23%	0.32%	-1.79%	0.86%	0.79%	3.10%	3.93%	0.21%	-0.58%	-2.66%
Government	-0.18%	-1.23%	-0.58%	0.20%	0.77%	-0.26%	-0.18%	0.28%	1.21%	-0.33%
Exports	0.41%	1.01%	0.98%	1.21%	1.19%	0.86%	2.51%	1.49%	-0.02%	-3.82%
Imports	-0.33%	-1.35%	0.39%	-1.89%	-3.13%	-1.83%	-2.36%	-2.08%	2.24%	6.26%
Real Final Sales	1.21%	0.04%	4.15%	1.64%	3.00%	0.84%	-0.12%	1.48%	-0.11%	-4.00%

Summary

This new GDP news release again lowered the BEA's previously reported readings of economic growth rates, and now shows the two most recent consecutive quarters with growth rates below 1%.

-- The good news (relatively speaking) is that commercial fixed investment appears to be improving, although the reported growth rate (1.01% annualized) is still weak by the historic standards of an economy two years into a recovery.

-- But the bad news is that consumer spending on goods continued to contract. Coupled with that contraction is the fact that inventories were being drawn down as factories dropped production levels even faster than consumption waned.

-- The "deflater" used to translate the nominal data into "real" data continues to be lower than numbers provided by the BEA's sister agencies (including the one specifically charged with tracking inflation), and it may be the entire source of the reported growth.

The continued downward revisions in the data indicate that the BEA is still having difficulty reading this economy. Even though their most recent numbers tell a story of an economy that is admittedly far weaker than it should be if the U.S. was truly well into a "recovery," it is likely that their measurements of a dynamically changing economy still substantially lag what is really happening.

Our real concern is that the BEA's track record of late has been one of initial optimism, followed a year later by quiet revisions downward towards a darker reality -- one far closer to what "Main Street" America has been feeling all along. We wonder if this report is any different.

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