Consumer Metrics Institute News

September 29, 2011: BEA Adjusts Second Quarter GDP Growth Rate Upward

The Bureau of Economic Analysis's (BEA) third estimate of second quarter 2011 U.S. Gross Domestic Product (GDP) was reported to be 1.34%, an upward adjustment from their previous data. The new growth number was .36% higher than the number reported last month for the same quarter. It is important to remember that this new monthly report covered the same time periods as the previous reports -- meaning that this monthly set of changes in the numbers was caused by late arriving data at the BEA and not actual month to month improvements in the economy.

Among the items notable in the report**:**

-- Aggregate consumer expenditures for goods was still reported to be contracting during the second quarter, dragging the overall growth rate of the economy down by a -0.38% rate. This is actually marginally weaker than the numbers in the earlier reports.

-- Consumer expenditures for services grew slightly during the quarter, at an improved (although still very sluggish) 0.87% annualized growth rate. But the adjustment in this single line item represented the bulk of the improvement in the headline number.

-- The growth rate of private fixed investments was only slightly higher, at a weak annualized 1.07% rate.

-- Inventories are still reported to have been drawn down during the quarter, indicating that production has slowed faster than demand. The revised estimate of inventory levels caused the overall growth rate to be reduced by a -0.28% annualized rate.

-- Total expenditures by governments at all levels was still reported to be shrinking, reducing overall economic activity at a -0.18% annualized rate.

-- Exports strengthened slightly relative to the earlier report, raising the contribution that they made to the overall GDP growth rate to 0.48%.

-- Imports decreased somewhat when compared to the earlier report, and are now reported to be removing -0.24% from the growth rate of the overall economy. The combination of the revisions in the import and export numbers contributed about half of the upward changes in the published headline number.

-- The growth rate of "real final sales of domestic product" was revised upward to an annualized 1.62%, as the result of the now higher consumer services figures, slightly improved foreign trade and the increased draw-down of inventories.

-- Working backwards from the data tables, the effective "deflater" used by the BEA to offset the impact of inflation was 2.58% -- still substantially below the rates reported by their sister agencies. Substituting the line-item appropriate (CPI or PPI) current inflation rate published by the Bureau of Labor Statistics (BLS) causes the "real" GDP to be contracting at a -0.73%

annualized rate.

-- And using the same alternate BLS "deflaters" the real **per-capita** GDP can be shown to be contracting at a -1.45% annualized rate. Similarly, per-capita disposable income was contracting at a -0.92% annualized rate. These per-capita numbers are what impacts individual Americans and it is the real source of the frustration within the populace.

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%	+	20.2%	+	-4.0%
Contribution to GDP Growth %	1.34%	=	0.49%	+	0.79%	+	-0.18%	+	0.24%

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**:**

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	1.34%	0.36%	2.36%	2.50%	3.79%	3.94%	3.81%	1.69%	-0.69%	-6.66%
Consumer Goods	-0.38%	1.10%	1.87%	1.09%	0.87%	1.45%	0.12%	1.70%	-0.52%	0.05%
Consumer Services	0.87%	0.36%	0.61%	0.75%	1.18%	0.47%	0.21%	-0.04%	-0.76%	-1.07%
Fixed Investment	1.07%	0.15%	0.88%	0.28%	2.12%	0.15%	-0.42%	0.13%	-2.26%	-5.09%
Inventories	-0.28%	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	0.48%	1.01%	0.98%	1.21%	1.19%	0.86%	2.51%	1.49%	-0.02%	-3.82%
Imports	-0.24%	-1.35%	0.39%	-1.89%	-3.13%	-1.83%	-2.36%	-2.08%	2.24%	6.26%
Real Final Sales	1.62%	0.04%	4.15%	1.64%	3.00%	0.84%	-0.12%	1.48%	-0.11%	-4.00%

Summary

Even at face value the reported 1.34% growth rate is either sluggish or pathetic, depending on your chosen inclination to spin. When a more reasonable "deflater" is used to calculate the "real" numbers, the second quarter is actually shown to be in contraction. And when using such alternative BLS inflation data the most recent past quarter is the 2nd consecutive "real" quarter to have such negative growth -- meeting one of the common definitions of a new recession.

The restive public clearly understands this -- even if the academicians at the BEA don't. The public has been seeing their (per-capita) "slice of the pie" contract now for six months, and no amount of well spun "sluggish growth" can alter their view of a shrinking reality.