Consumer Metrics Institute News

April 27, 2012: BEA Report Shows GDP Growth Slowing During 1Q-2012 to 2.20%

In their "advanced" estimate of the first quarter 2012 GDP, the Bureau of Economic Analysis (BEA) found that the annualized rate of U.S. domestic economic growth was 2.20%, down more than three-quarters of a percent from the f quarter of 2011. The vast bulk of the downturn was in commercial activities, with both fixed investments and invento lowering the headline number substantially. Consumer spending on both goods and services improved slightly, and th ongoing contraction in governmental spending moderated somewhat. The BEA's bottom-line "real final sales" impro about a half-percent to an annualized growth rate of 1.61% -- hardly robust and certainly not the kind of numbers we expect to see nearly three years into a recovery.

Once again the BEA has used "deflaters" that will strain the credibility of the public, especially if they buy gasoline. correct the "nominal" data into "real" numbers the BEA assumed that the **annualized** inflation rate during 1Q-2012 w 1.54%. As a reminder, lower "deflaters" cause the reported "real" growth rates to increase -- and once again very low seasonally adjusted BEA inflation "deflaters" have been the headline number's best friend. If the raw "nominal" numb instead "deflated" by using the seasonally corrected CPI-U calculated by the Bureau of Labor Statistics (BLS) for the time period, nearly the entire headline growth rate vanishes -- and the resulting growth rate would have been a minus 0.08% with "real final sales" contracting.

And real per capita disposable income actually shrank during the quarter -- even using the BEA's optimistic "deflater Real-world households likely felt the pinch even more.

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

-- The contribution to the annualized growth rate for consumer expenditures for goods improved to 1.47%, up 0.18% 1.29% for the fourth quarter of 2011. Although this number remains modest by "recovery" standards, it has been tren upward for the past several quarters.

-- The contribution made by consumer services also improved (to 0.57%), but it also remains anemic by "recovery" s

-- The growth rate contribution from private fixed investments dropped to 0.18% -- losing over a half-percent relative fourth quarter of 2011 and 1.34% from the third quarter of 2011.

-- The contribution from inventories (0.59% annualized) dropped significantly from the 1.81% reported for 4Q-2011. drop in inventory building was inevitable, although it still represents nearly a quarter of the headline number.

-- The reported drag on GDP growth from contracting expenditures by governments moderated somewhat at -0.60% quarter of a percent less than the -0.84% reported for 4Q2011).

-- The annualized contribution to the growth rate from exports rose to 0.73% (from 0.37% in the prior quarter).

-- Imports are now removing -0.74% from the growth rate of the overall economy, slightly worse than the -0.63% rec during 4Q2011.

-- The annualized growth rate of "real final sales of domestic product" rose to 1.61%, but it is still a 1.55% below the reported for the third quarter of 2011. If this number is accepted at face value (and not as a consequence of "deflaters havoc with inventory valuations) it still indicates a much weaker economy than is conveyed in the headline number.

-- Real per-capita disposable income shrank at an annualized -0.27% rate during the quarter (from $32,699 per capita $32,677 per capita) -- and it remains lower than it was 5 quarters ago.

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)

In the new report 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)	$15.5	=	$11.0	+	$2.0	+	$3.0	+	$-0.6
% of GDP	100.0%	=	71.2%	+	13.2%	+	19.6%	+	-4.0%
Contribution to GDP Growth %	2.20%	=	2.04%	+	0.77%	+	-0.60%	+	-0.01%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best und from the table below, which breaks out the component contributions in more detail and over time. In the table we hav the "C" component into goods and services, split the "I" component into fixed investment and inventories, separated from imports, added a line for the BEA's "Real Finals Sales of Domestic Product" and listed the quarters in columns most current to the left**:**

Quarterly Changes in % Contributions to GDP

	1Q-2012	4Q-2011	3Q-2011	2Q-2011	1Q-2011	4Q-2010	3Q-2010	2Q-2010	1Q-2010	4Q-2009	3Q-2009	2Q-2
Total GDP Growth	2.20%	2.97%	1.81%	1.34%	0.36%	2.36%	2.50%	3.79%	3.94%	3.81%	1.69%	-0.6
Consumer Goods	1.47%	1.29%	0.33%	-0.38%	1.10%	1.87%	1.09%	0.87%	1.45%	0.12%	1.70%	-0.5
Consumer Services	0.57%	0.19%	0.90%	0.87%	0.36%	0.61%	0.75%	1.18%	0.47%	0.21%	-0.04%	-0.7
Fixed Investment	0.18%	0.78%	1.52%	1.07%	0.15%	0.88%	0.28%	2.12%	0.15%	-0.42%	0.13%	-2.2
Inventories	0.59%	1.81%	-1.35%	-0.28%	0.32%	-1.79%	0.86%	0.79%	3.10%	3.93%	0.21%	-0.5
Government	-0.60%	-0.84%	-0.02%	-0.18%	-1.23%	-0.58%	0.20%	0.77%	-0.26%	-0.18%	0.28%	1.2
Exports	0.73%	0.37%	0.64%	0.48%	1.01%	0.98%	1.21%	1.19%	0.86%	2.51%	1.49%	-0.0
Imports	-0.74%	-0.63%	-0.21%	-0.24%	-1.35%	0.39%	-1.89%	-3.13%	-1.83%	-2.36%	-2.08%	2.2
Real Final Sales	1.61%	1.16%	3.16%	1.62%	0.04%	4.15%	1.64%	3.00%	0.84%	-0.12%	1.48%	-0.1

Summary

As lackluster as it may be, the headline number of 2.20% is still likely overstating the health of the economy**:**

-- The "deflater" used in constructing the reported growth rate (**reflecting annualized inflation of 1.54%**) will seem absurd to anyone who lived in the real world during the first quarter of 2012, especially if they bought gasoline or gro Using the CPI-U as a deflater makes the headline growth almost completely vanish.

-- Even the BEA's optimistic "deflaters" couldn't keep the per capita disposable income from shrinking during the qu

-- Governments continued to shrink their spending, and they sucked -0.60% from the headline number. That trend is to reverse anytime soon.

-- "Real final sales" and factory production continued to be supported by inventory building -- which is unsustainable must ultimately reverse (even if the cost of carrying the inventories has been kept artificially low by the Fed).

Our bottom line for the economy has always been the health of households. This report shows per capita disposable i shrinking and that any improvements in consumer spending are likely unsustainable. We suspect that the softening se this report the harbinger of a collapsing "recovery" that will continue to unfold during 2012.
