Consumer Metrics Institute News

June 28, 2012: BEA Leaves GDP Growth Rate Unchanged for 1Q-2012 at 1.88%

(Web page version is here)

In their third estimate of the first quarter 2012 GDP, the Bureau of Economic Analysis (BEA) left the annualized rate domestic economic growth unchanged at 1.88%, which is still more than a percent below the growth rate for the four quarter of 2011. This revision to the prior month's report does not reflect actual monthly changes in the economy, but another month's improvement in the BEA's understanding of what was happening during the prior quarter.

Even though the headline number stayed the same, the components of that number shifted somewhat**:** for example, th contribution provided by consumer spending (for both goods and services) dropped relative to the earlier reports, and commercial investment improved. However, the largest changes among the components in the headline came from fo trade, where the impact of both exports and imports dropped significantly, but in largely offsetting manner. Furtherm beneath those offsetting revisions was a recognition of a general weakening in nearly all areas of foreign trade (where nominal value of exports dropped -.74% and imports dropped -1.15% from previous reports).

The other key take-away from the data revision is that the latest round of inventory building also seems to have finall course, with the net contribution of inventory growth to the headline number dropping to a mere 0.10% after boosting headline for the fourth quarter of 2011 by nearly two percent. As a result of the drop in inventory growth the BEA's bottom-line "real final sales" improved to an annualized growth rate of 1.78% (up from 1.16% in 4Q-2011).

We have previously been critical of the seemingly low "deflaters" that the BEA has used to correct the "nominal" dat "real" numbers (as a reminder, lower "deflaters" cause the reported "real" growth rates to increase). In this report the revised those deflaters upward slightly, with net annualized inflation rate during 1Q-2012 now assumed to have been (compared to the 1.65% assumed in the prior report). If the seasonally corrected CPI-U calculated by the Bureau of L Statistics (BLS) for the same time period had been used to deflate the raw "nominal" numbers the economy would ha reported to have been growing at an anemic 0.24% annualized rate.

And the revised real per capita disposable income was reported to be growing at a minuscule 0.02% annualized rate c the quarter -- although even this essentially flat reading was an improvement over the contraction previously reported continue to find it unrealistic to expect any kind of sustained recovery throughout 2012 without meaningful increases household disposable income.

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

-- The contribution to the annualized growth rate for consumer expenditures for goods weakened again to 1.35%, (do slightly from 1.44% in the prior report, and essentially flat from the 1.29% for the fourth quarter of 2011).

-- The contribution made by consumer services also deteriorated (to 0.39%).

-- The growth rate contribution from private fixed investments improved to 0.74% (up from 0.61% in the last report).

-- But that number was nearly completely offset by a drop in the contribution made by inventories (now 0.10%, less t of the 0.21% reported earlier). The relatively neutral reading on inventory growth could be a signal that the inventory cycle that provided nearly two-thirds of the fourth quarter's rosy headline number has run its course after only two qu and producers have stopped stocking up in anticipation of growing demand.

-- The reported drag on GDP growth from contracting expenditures by governments grew in this revision very slightl
-0.80%, essentially the same as the -0.84% reported for 4Q-2011. The contraction of Federal defense spending alone
the headline number by -0.46%, and state and local governments sucked another -0.32% from the headline number.

-- The annualized contribution to the growth rate from exports dropped dramatically to 0.58% (down from 0.98% in t
report).

-- Imports are now reported to be removing -0.48% from the growth rate of the overall economy, but this is also a dra
change from the -1.05% reported only 28 days ago. The net of foreign trade is now reported to be slightly positive fo
headline number (adding 0.10% to the annualized GDP growth rate).

-- The annualized growth rate of "real final sales of domestic product" rose to 1.78%, but it is still 1.38% below the +
reported for the third quarter of 2011. This report's improvement is largely the result of a continued weakening in the
of inventories. If this number is accepted at face value (and not as a consequence of "deflaters" playing havoc with in
valuations) it still indicates a weaker economy than is conveyed in the headline number.

-- Real per-capita disposable income grew at an annualized 0.02% rate during the quarter (or roughly $2 per capita pe
from $32,572 per capita to $32,574 per capita) -- and it still remains lower than it was during the 3rd quarter of 2010,
quarters ago.

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 - 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%	=	71.1%	+	13.2%	+	19.6%	+	-3.9%
Contribution to GDP Growth %	1.88%	=	1.74%	+	0.84%	+	-0.80%	+	-0.10%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc
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	1.88%	2.97%	1.81%	1.34%	0.36%	2.36%	2.50%	3.79%	3.94%	3.81%	1.69%	-0.6
Consumer Goods	1.35%	1.29%	0.33%	-0.38%	1.10%	1.87%	1.09%	0.87%	1.45%	0.12%	1.70%	-0.5
Consumer Services	0.39%	0.19%	0.90%	0.87%	0.36%	0.61%	0.75%	1.18%	0.47%	0.21%	-0.04%	-0.7
Fixed Investment	0.74%	0.78%	1.52%	1.07%	0.15%	0.88%	0.28%	2.12%	0.15%	-0.42%	0.13%	-2.2
Inventories	0.10%	1.81%	-1.35%	-0.28%	0.32%	-1.79%	0.86%	0.79%	3.10%	3.93%	0.21%	-0.5
Government	-0.80%	-0.84%	-0.02%	-0.18%	-1.23%	-0.58%	0.20%	0.77%	-0.26%	-0.18%	0.28%	1.2
Exports	0.58%	0.37%	0.64%	0.48%	1.01%	0.98%	1.21%	1.19%	0.86%	2.51%	1.49%	-0.0
Imports	-0.48%	-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	1.78%	1.16%	3.16%	1.62%	0.04%	4.15%	1.64%	3.00%	0.84%	-0.12%	1.48%	-0.1

Summary

Although the headline number was unchanged, there were signals within the details that the economy is shifting in si
ways:

-- The inventory growth cycle has likely begun to reverse, with producers sensing that inventories have grown more t
enough to support disappointing levels of consumer spending. Historically such realizations come only after inventor
actually grown too large, causing subsequent quarterly production numbers to drop as inventories are drawn down to
justified by actual sales.

-- Federal defense spending is contracting fast enough to remove nearly half a percent from the GDP's annualized gro

This is the flip side of the U.S. disengagement from Iraq, and it should at least continue as the disengagement spreads theaters of operation.

-- In this revision the growth rates in foreign trade flattened substantially relative to the view held only a month earlie BEA's sequential estimating process the trade numbers are generally the last to firm up, and it is clear that the numbe came in far softer than the trade experts at the BEA had anticipated during the first two estimates. Although the nomi numbers are still increasing quarter-to-quarter, the actual rate of growth was only half of that previously projected -- signalling that the global economy has been weaker than the BEA's trade experts had expected.

-- The now-weaker growth in consumer spending (such as it is) has not come from any material growth in per capita disposable income. It remains hard to see how an extra $2 per year per consumer is going to provide significant long growth for this economy. Any reported consumer spending growth is neither organic nor long-term sustainable -- and fueled by governmental student loans and household cash flows improved by re-financing or mortgage defaults (whe strategic or involuntary).

And finally, those inclined to cynicism might point out that this just happens to be exactly the kind of economic repo should expect from bureaucrats in Washington during the run-up to a Presidential election -- i.e., unchanged headline 1Q-2012 with no significant "sound bites." The long term academic veracity of the economists at the BEA may hinge whether they **ultimately** get the numbers "right" -- and in the case of 1Q-2008 (the first real quarter of the "Great Re and exactly four years ago during the run-up to a Presidential election) even the slightest hint of the then-ongoing co (let alone the full extent of the contraction) wasn't published until July 2009 -- long after the 2008 polls had closed. A that same reason we would be surprised if the upcoming July 27th revisions to historic GDP numbers result in any sh revisions to recent data. Any such shocks can easily wait for next year's revisions.