

Consumer Metrics Institute News

July 27, 2012: BEA Estimates GDP Grew at 1.54% Rate During 2nd Quarter

(Web page version is [here](#))

In their first estimate of the second quarter 2012 GDP, the Bureau of Economic Analysis (BEA) found that the annual domestic economic growth was 1.54%, down nearly a half percent from the (revised) 1.97% for the prior quarter and a half percent from the (revised) 4.10% growth rate for the 4th quarter of 2011. And as part of this data release the data back through 2009 -- revisions which generally moderated their view of both the recession and the subsequent recovery. *recapping those revisions is shown below.*)

The drop in the growth rate came primarily from a lower contributions from consumer goods spending and fixed investment. An ongoing contraction in government spending moderated, and inventory growth added about a third of a percent to the total. The BEA's bottom line of "real final sales of finished goods" had an annualized growth rate of 1.22%, down slightly from the (revised) 2.36% growth rate for the prior quarter. In nearly all regards the published numbers show a decline for an economy that is now supposed to be over three years into a recovery.

We have previously been critical of the "deflators" that the BEA has used to correct the "nominal" data into "real" numbers. In 2Q-2012 the BEA assumed annualized net aggregate inflation of 1.51% (compared to the revised 2.16% annualized rate for the prior quarter). In contrast, during the second quarter the seasonally adjusted CPI-U published by the Bureau of Labor Statistics (BLS) actually recorded mild deflation at a -0.84% annualized "inflation" rate -- i.e., the CPI-U was considerably lower than the BEA's deflator. If the CPI-U's deflationary rate had been used to deflate the BEA's raw "nominal" numbers, the reported growth rate for the economy would have been substantially better (at 3.91%) than the published headline rate.

And real per capita disposable income was reported to be growing at a 2.54% annualized rate during the quarter. Despite the uptick, real per capita disposable income has grown (in total) a mere \$5 per year during the past 5 quarters.

Among the notable items in the report:

- The contribution to the annualized growth rate from consumer expenditures for goods weakened substantially to 0.87% from 1.11% in the prior quarter, and down even further (from 1.29%) since the fourth quarter of 2011).
- The contribution made by consumer services rose slightly to 0.87% (from 0.61%).
- The growth rate contribution from private fixed investments dropped to 0.76% (down from a revised 1.18% for the prior quarter).
- Inventory growth contributed 0.32% to the headline number, up significantly from the revised -0.39% contraction in the prior quarter. *(This is a case where the noise from the revision of the prior quarter's numbers swamps any viable signal in the data since we had previously been told that inventories grew during the prior quarter at essentially the same rate as now during 2Q-2012.)*
- The reported drag on GDP growth from contracting expenditures by governments lessened to -0.28% (from a revised -0.43% in the prior quarter). The bulk of the contraction has now shifted from Federal spending (-0.03%) to state and local spending (-0.25%).
- The annualized contribution to the growth rate from exports grew modestly to 0.73% (up from a revised 0.60% for the prior quarter).

-- Imports are now reported to be removing -1.04% from the headline growth rate (substantially worse than the -0.54% prior quarter). The net of foreign trade is now reported to be pulling the total growth rate down by -0.31%.

-- The annualized growth rate of "real final sales of domestic product" dropped to 1.22%, some 1.14% below a revised first quarter. If this number is accepted at face value (and not as a consequence of "deflators" playing havoc with inventories) it indicates a somewhat weaker economy than is conveyed by the headline number.

-- Real per-capita disposable income grew at an annualized 2.54% rate during the quarter (to \$32,769 per year). Although improved by roughly \$200 per capita per year during the quarter, it is now only \$5 per year more than the number recorded in the 3rd quarter of 2010, some 5 quarters ago.

The Numbers

As a quick reminder, the classic definition of the GDP can be summarized with the following equation:

$$\text{GDP} = \text{private consumption} + \text{gross private investment} + \text{government spending} + (\text{exports} - \text{imports})$$

or, as it is commonly expressed in algebraic shorthand:

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X}-\text{M})$$

In the new report the values for that equation (total dollars, percentage of the total GDP, and contribution to the final number) are as follows:

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M)
Annual \$ (trillions)	\$15.6	=	\$11.1	+	\$2.1	+	\$3.0	+	\$-0.6
% of GDP	100.0%	=	71.0%	+	13.3%	+	19.6%	+	-3.8%
Contribution to GDP Growth %	1.54%	=	1.05%	+	1.08%	+	-0.28%	+	-0.31%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best understood in 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 BEA's "Real Finals Sales of Domestic Product" and listed the quarters in columns with the most current to the left.

that nearly all of the numbers in this table have changed since our last report as a result of the BEA's comprehensive revision of their data back through 2009.)

Quarterly Changes in % Contributions to GDP

	2Q-2012	1Q-2012	4Q-2011	3Q-2011	2Q-2011	1Q-2011	4Q-2010	3Q-2010	2Q-2010	1Q-2010	4Q-2009	3Q-2009
Total GDP Growth	1.54%	1.97%	4.10%	1.28%	2.48%	0.08%	2.39%	2.60%	2.24%	2.33%	4.03%	1.44%
Consumer Goods	0.18%	1.11%	1.29%	0.33%	-0.22%	1.27%	1.78%	0.86%	0.76%	1.18%	-0.10%	1.61%
Consumer Services	0.87%	0.61%	0.16%	0.85%	0.92%	0.95%	1.06%	0.88%	1.05%	0.54%	0.09%	-0.10%
Fixed Investment	0.76%	1.18%	1.19%	1.75%	1.39%	-0.14%	0.87%	-0.10%	1.58%	-0.10%	-0.69%	-0.31%
Inventories	0.32%	-0.39%	2.53%	-1.07%	0.01%	-0.54%	-1.61%	1.97%	0.07%	2.23%	4.55%	0.11%
Government	-0.28%	-0.60%	-0.43%	-0.60%	-0.16%	-1.49%	-0.94%	-0.06%	0.59%	-0.69%	0.23%	0.71%
Exports	0.73%	0.60%	0.21%	0.83%	0.56%	0.75%	1.24%	1.18%	1.14%	0.70%	2.55%	1.44%
Imports	-1.04%	-0.54%	-0.85%	-0.81%	-0.02%	-0.72%	-0.01%	-2.13%	-2.95%	-1.53%	-2.60%	-2.11%
Real Final Sales	1.22%	2.36%	1.57%	2.35%	2.47%	0.62%	4.00%	0.63%	2.17%	0.10%	-0.52%	1.22%

Summary

From our perspective the most interesting data in the new release was contained in the revisions to previously published data back through 2009. Some of the revisions to more recent data were surprising -- for example, the 2nd and 4th quarter growth rates each revised upward by over a full percent, bringing the growth rate for the fourth quarter of 2011 up to an almost annual high. However, in general the revisions tended to moderate both the last quarters of the recession and the subsequent recovery.

BEA's Changing View of US Economic Growth

Quarter	New Rate	Prior Rate	Net Change
1Q-2012	1.97%	1.88%	+0.09%
4Q-2011	4.10%	2.97%	+1.13%
3Q-2011	1.28%	1.81%	-0.53%
2Q-2011	2.48%	1.34%	+1.14%
1Q-2011	0.08%	0.36%	-0.28%
4Q-2010	2.39%	2.36%	+0.03%

3Q-2010	2.60%	2.50%	+0.10%
2Q-2010	2.24%	3.79%	-1.55%
1Q-2010	2.33%	3.94%	-1.61%
4Q-2009	4.03%	3.81%	+0.22%
3Q-2009	1.46%	1.69%	-0.23%
2Q-2009	-0.32%	-0.69%	+0.37%
1Q-2009	-5.24%	-6.66%	+1.41%

Notable in the revisions shown above are the substantial downward revisions to the heart of the recovery during the first three quarters of 2010 -- where the growth rates are now over 1.5% weaker than previously reported. Furthermore, the BEA's revised data for 2008 and earlier -- even though their substantial revision of the first quarter of 2009 indicates that the underlying economy is still changing even that far back.

Also note that the first quarter of 2011 has now been revised downward to a nearly complete economic stall -- after the first quarter prints from the BEA were reporting the growth rate to be around 1.9%. If indeed the history of revisions from the BEA's "real-time" reports are subject to some +/- 2% in revisions (with the especially critical "turning point" of the last recession having been revised downward by a full 2.8% after some 40 months had passed), then we're not sure how much we can trust the currently published headline number for the 2nd quarter of 2012 -- one that falls well below that revision rate.

Regardless of the hoopla over the revisions, we can take the following from the BEA's latest view of the economy:

-- The overall annualized growth rate is weakening. By any measure it is already far weaker than we might expect based on trends for the third year of a recovery.

-- The consumer is not the driving force behind the recovery (such as it is). During the most recent quarter the growth in spending for goods contributed only 0.18% to the headline number. And although real per capita disposable income is up at a 2.54% annualized rate during the quarter, it has only just now recovered to the level recorded during the first quarter of 2009, 10 quarters ago.

-- But perhaps the most interesting aspect of the report comes from a more political reading of the numbers. If the BEA were to engineer a report that would seem plausible while not triggering "doom and gloom" headlines in the mass media, this is the kind of number they might choose. Anyone can create either "continued growth" or "weakening recovery" sound bites -- depending on your vested point of view. And meanwhile they have certainly not bitten their master's hand.

-- And (perhaps unfortunately from the market's perspective) this report provides cover for the Federal Reserve to do as it pleases just prior to the Presidential election. A 1.54% annualized growth rate hardly justifies any heroics in any new round of monetary interventions -- which could smack of pre-election tinkering from an ostensibly non-political entity.

We have previously observed that the first report for the third quarter of 2012 will be published on October 29th -- so just before the Presidential election. We would be truly amazed if the BEA reported any jarring new economic data at that time. If in fact contracting during the third quarter of 2012 (or contracted during the second quarter, for that matter), don't expect them to tell us until well after the polls have closed.

