Consumer Metrics Institute News

August 29, 2012: BEA Revises Estimate of Annualized GDP Growth to 1.73%

(Web page version is here)

In their first revision to their estimate of the second quarter 2012 GDP, the Bureau of Economic Analysis (BEA) foun annualized rate of U.S. domestic economic growth was 1.73%, up 0.19% from their initial estimate -- but still down a a percent from the 1.97% reported for the prior quarter and down over two and a quarter percent from the 4.10% grov quarter of 2011. The changes in the GDP growth shown in this report do not represent actual month-to-month change but merely a refined understanding of the previously reported data for the second quarter.

The upward revisions in the growth rate came primarily from substantial improvements in trade, with plunging impor contributing a half percent to the new growth number. The contributions from exports and consumer expenditures on grew modestly, and the contraction rate for government expenditures also moderated. On the negative side, consumer goods weakened slightly, as did commercial fixed investments. The biggest surprise in the report, however, came fro the inventory numbers -- which last month were reported to be growing, but in this revision were reported to be shrin revised overall negative impact on the headline number of over a half percent. The BEA's bottom line of "real final sa goods" had an annualized growth rate of 1.96%, improved from the prior report but still down -0.40% from the 2.36% the prior quarter.

The revisions do not materially change the picture of an economy that is growing -- although at a pace that is substan we should expect over three years into a recovery.

For this set of revisions the BEA assumed annualized net aggregate inflation of 1.59% (compared to the 2.16% annua assumed for the prior quarter). In contrast, during the second quarter the seasonally adjusted CPI-U published by the Statistics (BLS) actually recorded mild deflation at a -0.84% annualized "inflation" rate -- i.e., the CPI-U was conside the BEA's deflater. As a reminder: an understatement of assumed inflation improves the reported headline number, an overstatement shrinks the calculated growth rate -- and in this case the BEA's "deflater" actually substantially modera headline rate.

And although real per capita disposable income was reported to be growing at a 2.38% annualized rate during the qua past 5 quarters real per capita disposable income has grown (in total) a mere $14 per year -- hardly enough to ignite a recovery.

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

-- The contribution to the annualized growth rate from consumer expenditures for goods weakened further to 0.09% (in the prior quarter, and down even further (from 1.29%) since the fourth quarter of 2011).

-- The contribution made by consumer services rose to 1.11% (up a significant 0.24% from the initial estimate of 0.8

-- The growth rate contribution from private fixed investments dropped to 0.63% (down from 0.76% in the previous r

-- The biggest revision was in reported changes to inventories. The previously reported growth from inventory buildi sharply downward to a net draw-down of inventories -- enough to contract the headline number by -0.23% (although number was still up somewhat from the revised -0.39% contraction rate for the prior quarter).

-- The reported drag on GDP growth from contracting expenditures by governments lessened further to -0.18% (dow
figure of -0.28% in the previous estimate). The vast bulk of the contraction has now shifted from Federal spending (-
and local spending (-0.17%).

-- The annualized contribution to the growth rate from exports was revised upward to 0.82%.

-- Imports are now reported to be removing only -0.51% from the headline growth rate (substantially better than the -
previously reported). The net of foreign trade is now reported to adding 0.31% to the headline number.

-- The annualized growth rate of "real final sales of domestic product" was revised upward to 1.96%, still 0.40% belo
reported for the first quarter.

-- Real per-capita disposable income grew at an annualized 2.38% rate during the quarter (to $32,778 per year -- up o
from the $32,764 reported for the 1st quarter of 2011, some 5 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 - impo

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
number) are as follows**:**

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M)
Annual $ (trillions)	$15.6	=	$11.1	+	$2.1	+	$3.1	+	$-0.6
% of GDP	100.0%	=	71.0%	+	13.2%	+	19.6%	+	-3.7%
Contribution to GDP Growth %	1.73%	=	1.20%	+	0.40%	+	-0.18%	+	0.31%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc table below, which breaks out the component contributions in more detail and over time. In the table we have split th into goods and services, split the "I" component into fixed investment and inventories, separated exports from import the BEA's "Real Finals Sales of Domestic Product" and listed the quarters in columns with the most current to the lef

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-2
Total GDP Growth	1.73%	1.97%	4.10%	1.28%	2.48%	0.08%	2.39%	2.60%	2.24%	2.33%	4.03%	1.4
Consumer Goods	0.09%	1.11%	1.29%	0.33%	-0.22%	1.27%	1.78%	0.86%	0.76%	1.18%	-0.10%	1.6
Consumer Services	1.11%	0.61%	0.16%	0.85%	0.92%	0.95%	1.06%	0.88%	1.05%	0.54%	0.09%	-0.1
Fixed Investment	0.63%	1.18%	1.19%	1.75%	1.39%	-0.14%	0.87%	-0.10%	1.58%	-0.10%	-0.69%	-0.3
Inventories	-0.23%	-0.39%	2.53%	-1.07%	0.01%	-0.54%	-1.61%	1.97%	0.07%	2.23%	4.55%	0.1
Government	-0.18%	-0.60%	-0.43%	-0.60%	-0.16%	-1.49%	-0.94%	-0.06%	0.59%	-0.69%	0.23%	0.7
Exports	0.82%	0.60%	0.21%	0.83%	0.56%	0.75%	1.24%	1.18%	1.14%	0.70%	2.55%	1.4
Imports	-0.51%	-0.54%	-0.85%	-0.81%	-0.02%	-0.72%	-0.01%	-2.13%	-2.95%	-1.53%	-2.60%	-2.1
Real Final Sales	1.96%	2.36%	1.57%	2.35%	2.47%	0.62%	4.00%	0.63%	2.17%	0.10%	-0.52%	1.2

Summary

There is nothing material in this revision, just as the report itself shows no material change in the state of the econom we be sufficiently skeptical) this is exactly the kind of non-material report we should expect from a politically sensiti this stage of an electoral cycle. We might, however, take at least the following from the BEA's latest revision**:**

-- Consumer spending on goods has gone completely into neutral, after providing modest growth as recently as the fo 2011.

-- Government spending is no longer a major drag on the economy. In fact, the period of Federal fiscal contraction se nearly come to an end. Old habits may be tougher to kick than we might have hoped.

-- The swing in inventories was certainly a surprise. What was previously reported as a quarter of inventory building be a quarter when inventories were being drawn down. *(We suspect that aberrant deflaters or seasonal adjustments n here, but we would also note that inventories seem to be historically among the last pieces of BEA data to settle for a* But if inventories are in fact being drawn down, it tells us that merchants and manufacturers are substantially more ca coming quarters than the bullish equity markets would suggest.

-- And lastly this report continues to provides a rationale should the Federal Reserve wish to avoid doing anything dr the Presidential election. A 1.73% annualized growth rate is sort of a Goldilocks rate (not too hot, not too cold) -- har heroics in the form of a new round of QE monetary interventions while simultaneously discouraging any loose talk al recovery.

We have previously observed that the first report for the third quarter of 2012 will be published on October 29th -- so the Presidential election. We would be utterly amazed if the BEA reported any jarring new economic data at that time that they are likely to remain in an economic reporting "status quo" mode until well after the polls have closed.
