# Consumer Metrics Institute News

## September 27, 2012: BEA Revises Annualized GDP Growth Downward to 1.26%

(Web page version is here)

In their second and "final" revision to their estimate of the second quarter 2012 GDP, the Bureau of Economic Analy that the annualized rate of U.S. domestic economic growth was 1.26%, down about a half percent from last month's e down about three quarters of a percent from the 1.97% reported for the prior quarter (and down nearly three percent f growth rate for the 4th quarter of 2011). The changes in the GDP growth shown in this report do not represent actual changes in the economy, but merely a refined understanding of the previously reported data for the second quarter.

The downward revisions in the growth rate came from nearly all of the reported components, with shrinking inventor way. Already weak consumer goods expenditures became even weaker, while consumer spending on services is now growing at less than a 1% annualized rate. The positive contribution from exports weakened, and the drag on the hea imports remained nearly the same. The only good news for the growth rate was that the contraction rate for governme continued to moderate. The BEA's bottom line of "real final sales of finished goods" had an annualized growth rate o down -0.64% from the 2.36% growth rate for the prior quarter.

The revisions show a picture of an economy that is just barely growing -- and at a pace that is substantially slower tha expect well over three years into a recovery.

For this set of revisions the BEA assumed annualized net aggregate inflation of 1.52%. In contrast, during the second seasonally adjusted CPI-U published by the Bureau of Labor Statistics (BLS) actually recorded mild deflation at a -0 "inflation" rate -- i.e., the CPI-U was considerably lower than the BEA's deflater. As a reminder: an understatement o inflation improves the reported headline number, and conversely an overstatement shrinks the calculated growth rate the BEA's "deflater" actually substantially moderated the published headline rate.

And although real per capita disposable income was reported to be growing at a 2.39% annualized rate during the qu past 5 quarters real per capita disposable income has grown (in total) a mere $15 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 an almo 0.08% (down 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 dropped to 0.99%.

-- The growth rate contribution from private fixed investments dropped to 0.56% (less than half of the 1.18% in the f

-- Once again the biggest revision was in reported changes to inventories. The previously reported shrinkage in inven doubled -- with the result lowering the headline number by -0.46% (and now making the contraction worse that the -0 rate reported for the prior quarter).

-- The reported drag on GDP growth from contracting expenditures by governments lessened further to -0.14% (mild in the previous estimate). Federal spending is nearly neutral in its impact on the headline number (-0.02%), while the contribution to the headline is -0.12%.

-- The annualized contribution to the growth rate from exports was revised downward to 0.72%.

-- Imports are now reported to be removing only -0.49% from the headline growth rate. The net of foreign trade is no
adding 0.23% to the headline number.

-- The annualized growth rate of "real final sales of domestic product" was revised downward to 1.72%, now 0.64% l
reported for the first quarter.

-- Real per-capita disposable income grew at an annualized 2.39% rate during the quarter (to $32,779 per year -- but u
year from the $32,764 reported for the 1st quarter of 2011, some 5 quarters ago).

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**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 | + | $2.0 | + | $3.1 | + | $-0.6 |
| **% of GDP** | 100.0% | = | 71.0% | + | 13.1% | + | 19.6% | + | -3.7% |
| **Contribution to GDP Growth %** | 1.26% | = | 1.07% | + | 0.10% | + | -0.14% | + | 0.23% |

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** | 1.26% | 1.97% | 4.10% | 1.28% | 2.48% | 0.08% | 2.39% | 2.60% | 2.24% | 2.33% | 4.03% | 1.4 |
| **Consumer Goods** | 0.08% | 1.11% | 1.29% | 0.33% | -0.22% | 1.27% | 1.78% | 0.86% | 0.76% | 1.18% | -0.10% | 1.6 |
| **Consumer Services** | 0.99% | 0.61% | 0.16% | 0.85% | 0.92% | 0.95% | 1.06% | 0.88% | 1.05% | 0.54% | 0.09% | -0.1 |
| **Fixed Investment** | 0.56% | 1.18% | 1.19% | 1.75% | 1.39% | -0.14% | 0.87% | -0.10% | 1.58% | -0.10% | -0.69% | -0.3 |
| **Inventories** | -0.46% | -0.39% | 2.53% | -1.07% | 0.01% | -0.54% | -1.61% | 1.97% | 0.07% | 2.23% | 4.55% | 0.1 |
| **Government** | -0.14% | -0.60% | -0.43% | -0.60% | -0.16% | -1.49% | -0.94% | -0.06% | 0.59% | -0.69% | 0.23% | 0.7 |
| **Exports** | 0.72% | 0.60% | 0.21% | 0.83% | 0.56% | 0.75% | 1.24% | 1.18% | 1.14% | 0.70% | 2.55% | 1.4 |
| **Imports** | -0.49% | -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** | 1.72% | 2.36% | 1.57% | 2.35% | 2.47% | 0.62% | 4.00% | 0.63% | 2.17% | 0.10% | -0.52% | 1.2 |

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**Summary**

The 1.26% reported annualized growth rate is statistically (and arguably economically) indistinguishable from a com
materially weaker than the 4.10% reported for the 4th quarter of 2011. And as a reminder, at the same three month la
onset of the "last" recession the BEA was still reporting largely similar growth -- only to ultimately admit (after some
passed) that the economy had really been contracting at something close to a -2% annualized rate**:**

## BEA's Changing View of First Quarter 2008 GDP (The First Full Quarter of t Recession")

| Reported Growth Rate | Report Date | Months Lag |
|---|---|---|
| **+1.0%** | June 26, 2008 | 3 |
| **-0.7%** | July 31, 2009 | 16 |
| **-1.8%** | July 29, 2011 | 40 |

There is a good chance that the BEA will ultimately recognize that this past quarter was signalling a similar turn in th

The revised numbers themselves offer good reason for caution**:**

-- Consumer spending on goods has gone almost completely into neutral, after providing modest growth as recently a
quarter of 2011.

-- The contribution to the headline number from exports is weakening in the face of a global slowdown.

-- Factories and supply chains are drawing down inventories in anticipation of weakening demand. Some analysts ma
inventory contraction into a silver lining, since in theory those inventories will need to be rebuilt at some future date.
analysts probably missed the point that the bulk of the rosy 4.10% fourth quarter 2011 headline came from excessive
-- pulling production ahead in a manner that (by the converse of their argument) is just now being corrected.

We had previously observed that the more optimistic number published last month provided cover should the Federal
avoid doing anything dramatic just prior to the Presidential election. Obviously the Federal Reserve did not believe th
they may not believe this one either. In fact, the politically uncomfortable timing of their new easing actions may spe
what they really know.

The first report for the third quarter of 2012 will be published on October 29th -- some 5 days before the Presidential
would be utterly amazed if the BEA indulged in any form of political ambush by reporting a jarring shift in economic