# Consumer Metrics Institute News

## October 26, 2012: BEA Reports 3rd Quarter 2012 GDP Growth at 2.02%

(Web page version is here)

In their first ("Advance") estimate of the US GDP for the third quarter of 2012 the Bureau of Economic Analysis (BE
was growing at a 2.02% annualized rate, some 0.76% higher than for the prior quarter and at very nearly the same lev
quarter of 2012.

Although the overall number was higher, the report included a serious mix of signals. Among the components contrib
quarter growth rate were sharply higher consumer goods consumption, significantly higher governmental expenditure
inventory contraction and less imports. On the other hand consumers used fewer services, fixed investments weakene
the face of the global economic slowdown. The BEA's bottom line of "real final sales of finished goods" had an annu
2.14%, about 0.42% above the 1.72% growth rate for the prior quarter.

The new data show a picture of an economy that is growing at a modest rate but with serious underlying issues -- inc
fixed investments, a continued reduction of inventories and contracting exports. Once again this report paints the pict
growing at a pace that is substantially slower than we should expect well over three years into a recovery.

For this set of revisions the BEA assumed annualized net aggregate inflation of 2.89%. In contrast, during the third q
adjusted CPI-U published by the Bureau of Labor Statistics (BLS) recorded a substantially higher 4.98% annualized
reminder: an understatement of assumed inflation improves the reported headline number -- and in this case the BEA
2% below the CPI-U) significantly boosted the published headline rate. If the CPI-U had been used to convert the "no
"real" numbers, the reported headline would have shown an economy contracting at a -0.02% rate.

And real per capita disposable income was reported to be essentially flat during the quarter (contracting at a -0.01% a
past 6 quarters (18 months) real per capita disposable income has grown (in total) a mere $14 per year -- hardly enou
recovery.

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

-- The annualized growth rate of consumer expenditures for goods strengthened markedly, contributing 1.03% to the
from the essentially flat reading for the prior quarter, but down slightly from the first quarter of 2012).

-- The contribution made by consumer services dropped noticeably to 0.39% -- off sharply from the 0.99% recorded

-- The growth rate contribution from private fixed investments dropped again to 0.20% (down -0.36% from the prior
percent lower than the first quarter).

-- Inventories continued to shrink, although the pace moderated. The contraction of inventories removed -0.12% from
improvement from the -0.46% drag recorded in the prior quarter.

-- The most surprising change in the economy came from sharply increasing governmental expenditures. Growth in g
reported to have added 0.71% to the headline number, the first "positive" contribution in over two years. All of that g
spending, while the state and local contribution to the headline remained essentially flat (-0.01%).

-- Shrinking exports pulled the headline number down by -0.23%, a remarkable change from the 0.72% boost provide

Clearly the weakening global economy is starting to impact the US economy.

-- And shrinking imports actually added 0.04% to the growth rate. This also is a reversal from the -0.49% drag during reduced imports help the headline number mathematically, they are ultimately a sign of weakening domestic demand

-- The annualized growth rate of "real final sales of domestic product" was revised upward to 2.14%, some 0.42% ab still below the 2.36% reported for the first quarter of 2012.

-- Real per-capita disposable income was down $1 during the quarter (to $32,778 per year -- up only $14 per year fro the 1st quarter of 2011, now some 6 quarters ago).

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**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 -**

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 are as follows**:**

## GDP Components Table

| | Total GDP | = | C | + | I | + | G | + | (X-M) |
|---|---|---|---|---|---|---|---|---|---|
| **Annual $ (trillions)** | $15.8 | = | $11.2 | + | $2.0 | + | $3.1 | + | $-0.5 |
| **% of GDP** | 100.0% | = | 70.8% | + | 13.0% | + | 19.6% | + | -3.4% |
| **Contribution to GDP Growth %** | 2.02% | = | 1.42% | + | 0.08% | + | 0.71% | + | -0.19% |

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

## Quarterly Changes in % Contributions to GDP

| | 3Q-2012 | 2Q-2012 | 1Q-2012 | 4Q-2011 | 3Q-2011 | 2Q-2011 | 1Q-2011 | 4Q-2010 | 3Q-2010 | 2Q-2010 | 1Q-2010 | 4Q-2 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total GDP Growth** | 2.02% | 1.26% | 1.97% | 4.10% | 1.28% | 2.48% | 0.08% | 2.39% | 2.60% | 2.24% | 2.33% | 4.0 |
| **Consumer Goods** | 1.03% | 0.08% | 1.11% | 1.29% | 0.33% | -0.22% | 1.27% | 1.78% | 0.86% | 0.76% | 1.18% | -0.1 |
| **Consumer Services** | 0.39% | 0.99% | 0.61% | 0.16% | 0.85% | 0.92% | 0.95% | 1.06% | 0.88% | 1.05% | 0.54% | 0.0 |
| **Fixed Investment** | 0.20% | 0.56% | 1.18% | 1.19% | 1.75% | 1.39% | -0.14% | 0.87% | -0.10% | 1.58% | -0.10% | -0.6 |
| **Inventories** | -0.12% | -0.46% | -0.39% | 2.53% | -1.07% | 0.01% | -0.54% | -1.61% | 1.97% | 0.07% | 2.23% | 4.5 |
| **Government** | 0.71% | -0.14% | -0.60% | -0.43% | -0.60% | -0.16% | -1.49% | -0.94% | -0.06% | 0.59% | -0.69% | 0.2 |
| **Exports** | -0.23% | 0.72% | 0.60% | 0.21% | 0.83% | 0.56% | 0.75% | 1.24% | 1.18% | 1.14% | 0.70% | 2.5 |
| **Imports** | 0.04% | -0.49% | -0.54% | -0.85% | -0.81% | -0.02% | -0.72% | -0.01% | -2.13% | -2.95% | -1.53% | -2.6 |
| **Real Final Sales** | 2.14% | 1.72% | 2.36% | 1.57% | 2.35% | 2.47% | 0.62% | 4.00% | 0.63% | 2.17% | 0.10% | -0.5 |

### Summary

To our eyes this report is sort of like a "Goldilocks" moment. The report is arguably neutral, with a headline that can "improving growth" or "continued weakness" depending on your particular agenda.

And the report is also a mixed bag when looking at the details**:** the headline was boosted by a burst of Federal spendi favorable set of deflaters -- while fixed investments weakened and exports collapsed. Even the consumer numbers we in goods spending at least partially offset by weakening growth in the consumption of services.

There were also surprises in the new numbers that probably merit caution moving forward**:**

-- Over 30% of the headline growth rate came from a $27 billion surge in Federal defense spending, possibly an artifa manipulations and advance contracting in anticipation of the "fiscal cliff."

-- The sharp contraction in exported goods is not a good sign for the economy. This was the largest contraction in exp of 2009, and it is certainly a sign that the US economy is not immune to contagion from overseas.

-- The contraction of per-capita disposable income simply means that households continue to be under pressure. As w growth of consumer spending is not coming from fatter paychecks -- it is coming instead from other sources, includin defaults and student loans.

Frankly, we had expected the report to show an improving economy -- although in this report the improvement is mo correct. Ultimately we find the headline 2.02% masking a somewhat weaker underlying reality.