Consumer Metrics Institute News

November 29, 2012: BEA Raises 3rd Quarter 2012 GDP Growth Estimate to 2.67%

(Web page version is here)

In their second estimate of the US GDP for the third quarter of 2012 the Bureau of Economic Analysis (BEA) found
growing at a 2.67% annualized rate, an upward revision of +0.65% from the previously published first estimate for th

The improved headline number came exclusively from two sources: substantial upward revisions to inventories and e
components of the growth rate actually weakened -- particularly those associated with consumers. The happy change
fact that the BEA's bottom line "real final sales of domestic product" fell by nearly a quarter of a percent to 1.90%. E
huge surge in Federal governmental spending, rising inventories and increasing exports the headline number would h

The impact of the rise in Federal spending was nontrivial: nominal spending on salaries, materiel and construction gr
rate during the quarter, with nominal defense spending alone growing at an astounding annualized 13.9% rate. This s
could have been either an organic attempt by the defense establishment to stockpile materiel prior to the "fiscal cliff"
motivated "stealth stimulus" by the Administration. In either case the stimulus was accomplished without much in th
fiscal transparency.

For this set of revisions the BEA assumed annualized net aggregate inflation of 2.80%. 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 growth rate would have been an anemic 0.57%.

And real per capita disposable income was revised sharply downward for the quarter (it is now reported to be contrac
rate). During the past 6 quarters (18 months) real per capita disposable income has shrunk by $78 per year -- with $2
during the past quarter. At that rate there will be no consumer-led recovery in the foreseeable future.

Indeed, from the perspective of consumers, taxpayers and households living on "Main Street," the headline number s
puzzling or pure fiction.

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

-- The contribution of consumer expenditures for goods to the headline number was revised downward to 0.83% (fro
report).

-- The contribution made by consumer services was more than halved to 0.16% -- off sharply from the 0.39% in the p

-- The growth rate contribution from private fixed investments was also halved to 0.10% (down from 0.20% in the pr

-- The report for inventories was completely inverted from the first estimate, and the dramatic revision from reported
(-0.12%) to reported inventory building (+0.77%) added nearly a full percent to the headline number. Clearly the BE
inventories are problematic.

-- As mentioned above, the story of the third quarter's economy came from sharply increasing governmental expendit

government spending is now reported to have added +0.67% to the headline number after subtracting -0.60% as recen
2012. All of that growth came from Federal spending, while the state and local contribution to the headline remained

-- Exports also reversed their impact on the headline number, now adding 0.16% after previously subtracting -0.23%
for the third quarter. This revision is also counter intuitive, since it seems to imply an improving global economy des
to the contrary.

-- And imports are now reported to be subtracting -0.02% from the headline growth rate (a minor revision to the +0.0

-- The annualized growth rate of "real final sales of domestic product" was revised downward to 1.90%, some 0.24%
about a half percent below the 2.36% reported for the first quarter of 2012.

-- Real per-capita disposable income was down $25 during the quarter (to $32,686 per year). This is down $78 from t
1st quarter of 2011, now some 6 quarters ago. The reported annualized contraction rate of -0.31% benefits from the r
by the BEA. If per-capita disposable income were "deflated" using the BLS CPI-U (which presumably is what consu
when spending their incomes) the annualized contraction rate for per capita consumer spending power is more like -3

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 -

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	=	$11.1	+	$2.1	+	$3.1	+	$-0.5
% of GDP	100.0%	=	70.6%	+	13.2%	+	19.6%	+	-3.3%
Contribution to GDP Growth %	2.67%	=	0.99%	+	0.87%	+	0.67%	+	0.14%

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 f
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	2.67%	1.26%	1.97%	4.10%	1.28%	2.48%	0.08%	2.39%	2.60%	2.24%	2.33%	4.0
Consumer Goods	0.83%	0.08%	1.11%	1.29%	0.33%	-0.22%	1.27%	1.78%	0.86%	0.76%	1.18%	-0.1
Consumer Services	0.16%	0.99%	0.61%	0.16%	0.85%	0.92%	0.95%	1.06%	0.88%	1.05%	0.54%	0.0
Fixed Investment	0.10%	0.56%	1.18%	1.19%	1.75%	1.39%	-0.14%	0.87%	-0.10%	1.58%	-0.10%	-0.6
Inventories	0.77%	-0.46%	-0.39%	2.53%	-1.07%	0.01%	-0.54%	-1.61%	1.97%	0.07%	2.23%	4.5
Government	0.67%	-0.14%	-0.60%	-0.43%	-0.60%	-0.16%	-1.49%	-0.94%	-0.06%	0.59%	-0.69%	0.2
Exports	0.16%	0.72%	0.60%	0.21%	0.83%	0.56%	0.75%	1.24%	1.18%	1.14%	0.70%	2.5
Imports	-0.02%	-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	1.90%	1.72%	2.36%	1.57%	2.35%	2.47%	0.62%	4.00%	0.63%	2.17%	0.10%	-0.5

Summary

This report's headline number substantially misrepresents the state of the domestic economy, particularly the consum
Removing the impact of the Federal spending surge, growing inventories and exports removes nearly two-thirds of th
remaining growth is then deflated using BLS inflation data, the consumer portion of the economy is actually shrinkin
excess of -1.0%.

Recapping the issues that merit caution moving forward:

-- About 27% of the headline growth rate came from a $31 billion surge in Federal spending, probably from advance
of the "fiscal cliff" (and/or a conscious effort to provide a purely executive "stealth stimulus" to the economy).

-- Inventories are once again reported to be growing, with 29% of the headline growth rate coming from such growth
growth is a nearly zero-sum game, and that apparent growth will need to be paid back in coming quarters.

-- The accelerating contraction of per-capita disposable income means that households are under sustained pressure.
spending is not coming from fatter paychecks -- it is coming instead from other sources, including refinancing, strate

personal savings (which shrank by $24.4 billion during the quarter) and increased student loans.

We would like to think that the economy is indeed growing at nearly 3% -- which by all rights it should be nearly fou
"recovery." Unfortunately, the underlying reality (especially for US consumers and wage earners) seems to point in a

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