Consumer Metrics Institute News

December 20, 2012: BEA Raises 3rd Quarter 2012 GDP Growth Estimate Once Again to 3.09%

(Web page version is here)

In their third (and "final") estimate of the US GDP for the third quarter of 2012 the Bureau of Economic Analysis (Bl
was growing at a 3.09% annualized rate, an upward revision of +0.42% from the previously published estimate for th
than the second quarter of 2012.

The improved headline number came primarily from substantial upward revisions to exports, consumer services and
and a decrease in imports. Minor upward revisions in consumer goods and fixed investments was offset by a downwa
The annualized growth rate for the BEA's bottom line "real final sales of domestic product" was also revised up signi

Perhaps most surprisingly, for the first time since the fourth quarter of 2009 real state and local government expendit
growing. In fact, surging governmental expenditures at all levels contributed +0.75% to the headline number -- with
alone growing at an astounding annualized 13.9% rate.

For this set of revisions the BEA assumed annualized net aggregate inflation of 2.74%. 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 a much weaker 0.93%.

And the contraction rate for real per capita disposable income is now reported to have moderated slightly (although it
contracting at a -0.24% annualized rate). During the past 6 quarters (18 months) real per capita disposable income ha
with $20 of that loss occurring during the past quarter. Once again the combination of increasing consumer expenditu
disposable income raises concerns about the sustainability of the current recovery.

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

-- The contribution of consumer expenditures for goods to the headline number was revised upward to 0.85% (from 0
report).

-- The contribution made by consumer services increased to 0.26% -- up from the 0.16% in the previous report.

-- The growth rate contribution from private fixed investments was largely unchanged at 0.12% (up slightly from 0.1

-- The contribution from inventories remained relatively high (+0.73%), providing about a quarter of the headline nu
growth should be a nearly zero-sum game, and presumably this quarter's growth from inventory building will be offs
reduced production to shrink excessive inventories.

-- From a long term perspective, the biggest change in the third quarter's economy came from sharply increasing gov
Growth in government spending at all levels is now reported to have added +0.75% to the headline number after subt
as the first quarter of 2012.

-- Exports added more than a quarter of a percent to the headline number (+0.27%). The improving export picture see global economy despite any number of reports to the contrary.

-- And reduced imports actually added +0.11% to the headline growth rate (a change in direction from the -0.02% pre

-- The annualized growth rate of "real final sales of domestic product" was revised sharply upward to 2.36%, some 0. and now at the same level as reported for the first quarter of 2012.

-- Real per-capita disposable income was down $20 during the quarter (to $32,691 per year). This is down $73 from t 1st quarter of 2011, now some 6 quarters ago. The reported annualized contraction rate of -0.24% 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	=	$11.2	+	$2.1	+	$3.1	+	$-0.5
% of GDP	100.0%	=	70.6%	+	13.2%	+	19.6%	+	-3.3%
Contribution to GDP Growth %	3.09%	=	1.11%	+	0.85%	+	0.75%	+	0.38%

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	3.09%	1.26%	1.97%	4.10%	1.28%	2.48%	0.08%	2.39%	2.60%	2.24%	2.33%	4.0
Consumer Goods	0.85%	0.08%	1.11%	1.29%	0.33%	-0.22%	1.27%	1.78%	0.86%	0.76%	1.18%	-0.1
Consumer Services	0.26%	0.99%	0.61%	0.16%	0.85%	0.92%	0.95%	1.06%	0.88%	1.05%	0.54%	0.0
Fixed Investment	0.12%	0.56%	1.18%	1.19%	1.75%	1.39%	-0.14%	0.87%	-0.10%	1.58%	-0.10%	-0.6
Inventories	0.73%	-0.46%	-0.39%	2.53%	-1.07%	0.01%	-0.54%	-1.61%	1.97%	0.07%	2.23%	4.5
Government	0.75%	-0.14%	-0.60%	-0.43%	-0.60%	-0.16%	-1.49%	-0.94%	-0.06%	0.59%	-0.69%	0.2
Exports	0.27%	0.72%	0.60%	0.21%	0.83%	0.56%	0.75%	1.24%	1.18%	1.14%	0.70%	2.5
Imports	0.11%	-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	2.36%	1.72%	2.36%	1.57%	2.35%	2.47%	0.62%	4.00%	0.63%	2.17%	0.10%	-0.5

Summary

Nearly all of the detail in this revised report showed some improvement from the prior estimate. And the roughly 3% well within the range of what we should be expecting some 13 quarters into an economic "recovery." However, remo governmental spending surge, growing inventories and foreign trade removes over three-fifths of the apparent growth

Recapping the issues that merit caution moving forward**:**

-- About a quarter of the headline growth rate came from a surge in governmental spending.

-- Inventory growth also contributed about a quarter of the headline growth rate. The BEA's inventory valuations are the deflators used, and the wild fluctuation of these numbers from earlier reports raises at least some concerns about t assuming that the reported numbers are correct, substantial growth in current inventories does not bode well for facto future quarters.

-- The continued contraction of per-capita disposable income means that households are under sustained pressure. An spending is not coming from fatter paychecks -- it is coming instead from other sources, including refinancing, strate personal savings (which now reportedly shrank by $25.9 billion during the quarter) and increased student loans.