Consumer Metrics Institute News

January 30, 2013: BEA Reports 4th Quarter 2012 GDP Contracting at -0.14% Annual Rate

(Web page version is here)

In their first (or "advance") estimate of the US GDP for the fourth quarter of 2012 the Bureau of Economic Analysis
shrinking at a -0.14% annualized rate, over 3% worse than the 3.09% growth rate that they recorded for the prior qua

The contraction was driven primarily by dramatic reversals to the prior one-quarter spikes in government spending ar
improved the final headline number for the 3rd quarter. The reversals of those two line items reduced the headline nu
showed substantial weakening in exports, although that was also offset somewhat by a softening of imports.

Despite the gloom in the headline number, there were actually some positive signs in the details of the report. The co
report were actually slightly stronger than reported for the prior quarter, with the modest upturn in consumer activity
number. And commercial fixed investment improved enough to provide a 1% boost to the overall economic growth r

For this set of revisions the BEA assumed annualized net aggregate inflation of 0.60%. In contrast, during the third q
published by the Bureau of Labor Statistics (BLS) recorded a dis-inflationary -0.75% annualized "inflation" rate. As
assumed inflation decreases the reported headline number -- and in this case the BEA's relatively high "deflater" (mo
published headline rate. If the CPI-U had been used to convert the "nominal" GDP numbers into "real" numbers, the
have been a modest (but positive) 1.21% growth rate.

And the previous ongoing contraction of real per capita disposable income was reported to have come to an end, with
capita disposable income now reported to be a very healthy +6.03%. This decidedly good news was somewhat offset
about $140 billion per year, or roughly 1% of GDP) as households remained cautious in their spending habits. It shou
restored FICA deductions will take back some of that disposable income gain during 1Q-2013 -- which may also exp

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

-- The contribution of consumer expenditures for goods to the headline number was revised upward to 1.08% (from 0

-- The contribution made by consumer services increased to 0.44% -- up from the 0.26% in the previous period.

-- The growth rate contribution from private fixed investments was up sharply to 1.19% (from 0.12% in the prior qua

-- Inventory draw-downs removed -1.27% from the headline number, down a full 2% from the positive 0.73% contrib
the inventory data in the BEA's reports are often impacted significantly by not-fully-compensated commodity price c
these numbers the true source of the sharp reversal (e.g., uncorrected oil pricing anomalies or genuine changes to sup
manufacturing schedules).

-- A sharp decrease in government spending removed -1.33% from the headline number. This change more than fully
spending in the same sector. Nearly all of this swing was in defense spending, where all of the surge in 3Q-2012 was
quarter boost to the headline number was simply brought forward from the fourth quarter. State and local governmen
removing an aggregate -0.08% from the headline annualized growth rate.

-- Declining exports removed -0.81% from the headline number (sharply down from the +0.27% positive contributio prior quarter this export picture finally seems to be reflecting the generally weakening global economy.

-- And reduced imports actually added +0.56% to the headline growth rate (up from the 0.11% in the previous quarte
component in the GDP equation even though weakening demand for imports is often actually a sign of a slowing eco

-- The annualized growth rate of "real final sales of domestic product" was revised downward to 1.13%, some -1.23%
BEA's "bottom line" measurement of the economy.

-- And perhaps the best news in a long time**:** real per-capita disposable income was up $482 annually during the quar
economic standpoint however, a significant share of that was absorbed when the personal savings rate soared from 3.
annual improvement into savings or deleveraging activities instead of consumptive spending.

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 + (expo

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
follows**:**

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M
Annual $ (trillions)	$15.8	=	$11.2	+	$2.1	+	$3.1	+	$-0.
% of GDP	100.0%	=	71.1%	+	13.2%	+	19.3%	+	-3.5
Contribution to GDP Growth %	-0.14%	=	1.52%	+	-0.08%	+	-1.33%	+	-0.25

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best und
breaks out the component contributions in more detail and over time. In the table we have split the "C" component in
component into fixed investment and inventories, separated exports from imports, added a line for the BEA's "Real F

listed the quarters in columns with the most current to the left:

Quarterly Changes in % Contributions to GDP

	4Q-2012	3Q-2012	2Q-2012	1Q-2012	4Q-2011	3Q-2011	2Q-2011	1Q-2011	4Q-2010	3Q-2010	2Q-2010	1Q-2
Total GDP Growth	-0.14%	3.09%	1.26%	1.97%	4.10%	1.28%	2.48%	0.08%	2.39%	2.60%	2.24%	2.3
Consumer Goods	1.08%	0.85%	0.08%	1.11%	1.29%	0.33%	-0.22%	1.27%	1.78%	0.86%	0.76%	1.1
Consumer Services	0.44%	0.26%	0.99%	0.61%	0.16%	0.85%	0.92%	0.95%	1.06%	0.88%	1.05%	0.5
Fixed Investment	1.09%	0.12%	0.56%	1.18%	1.19%	1.75%	1.39%	-0.14%	0.87%	-0.10%	1.58%	-0.1
Inventories	-1.27%	0.73%	-0.46%	-0.39%	2.53%	-1.07%	0.01%	-0.54%	-1.61%	1.97%	0.07%	2.2
Government	-1.33%	0.75%	-0.14%	-0.60%	-0.43%	-0.60%	-0.16%	-1.49%	-0.94%	-0.06%	0.59%	-0.6
Exports	-0.81%	0.27%	0.72%	0.60%	0.21%	0.83%	0.56%	0.75%	1.24%	1.18%	1.14%	0.7
Imports	0.56%	0.11%	-0.49%	-0.54%	-0.85%	-0.81%	-0.02%	-0.72%	-0.01%	-2.13%	-2.95%	-1.5
Real Final Sales	1.13%	2.36%	1.72%	2.36%	1.57%	2.35%	2.47%	0.62%	4.00%	0.63%	2.17%	0.1

Summary

There are several quarter-to-quarter "take aways" from the report:

-- As detailed above, the contraction was driven primarily by dramatic (but not unexpected) reversals to the one-quar and inventory growth, which sharply (and conveniently) improved the headline number just prior to the November el one-quarter binges simply brought zero-sum economic activity forward by a quarter, and at worse we will see both of anomalies that disappear in future revisions.

-- For those of us who follow these numbers closely (and perhaps foolishly try to make some longer-term sense of the reported for the third quarter has now at least reversed, and the general weakening pattern previously recorded for 20

-- The consumer data was actually a modest bright spot. Per-capita disposable income increased substantially, as did for both goods and services. Similarly commercial fixed investment expenditures improved.

But there are several longer term issues with the data:

-- We have mentioned before that the BEA is notoriously poor at recording turning points in the economy in "real tim classic example, initially being reported in "real time" as yet another quarter of sustained growth before being revised 40 months to become the first quarter of contraction leading into what we now call the "Great Recession." We fully e economic upturn seen in the 3Q-2012 data will largely vanish in future revisions.

-- And in truth it is hard to look at these new numbers without at least some cynical thoughts about the reported numb frankly astonished when the final numbers for the third quarter came in at a 3.09% "full recovery" growth rate, driven Federal spending, particularly in the Department of Defense (DOD) -- the timing of which was completely controlled of positive pre-election economic headlines. The annualized rates of growth for defense spending rose to over 15% in to a -15% annualized contraction rate in 4Q-2012 -- after the polls had closed.

To that last point**:** arguably the DOD was simply moving materiel acquisitions forward in anticipation/avoidance of " economic impact of the contracting binge a mere side effect of bureaucratic hoarding. We should all hope that the co were more budgetary than political in nature.