Consumer Metrics Institute News

February 28, 2013: BEA Revises 4th Quarter 2012 GDP Upward to a 0.14% Annual Growth Rate

(Web page version is here)

In their second estimate of the US GDP for the fourth quarter of 2012 the Bureau of Economic Analysis (BEA) repor
a minuscule 0.14% annualized rate, roughly 3% worse than the 3.09% growth rate that they recorded for the prior qu
higher than the previously published estimate for the fourth quarter, but as such it merely represents an improved und
2012 economic data and not improved month-to-month economic activity.

Neither this 0.14% positive growth rate nor the previously published -0.14% contraction rate show an economy that i
dead stall. The positive revisions came from fixed investments and trade (both increased exports and reduced imports
marginally weaker than previously reported, and inventories continued to shrink.

For this set of revisions the BEA assumed annualized net aggregate inflation of 0.88%. 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 1.77% growth rate. If data for online prices from the Billion Prices Project had been used to deflate the E
would have been 1.02% annualized.

And the previously reported improvements in real per capita disposable income were essentially sustained, with the a
disposable income now reported to be a still healthy +5.65%. It should be noted that more than half of this increase i
increased personal savings (up about $132 billion per year, or roughly 1% of GDP) as households remained cautious
anticipation of the fully restored FICA deductions that will take back most of the fourth quarter's net disposable hous

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

-- The contribution of consumer expenditures for goods to the headline number was revised downward to 1.03% (fro

-- The contribution made by consumer services remained flat at 0.44%.

-- The growth rate contribution from private fixed investments was up to 1.36% (from 1.19% in the previous report).

-- Inventory draw-downs accelerated, removing -1.55% from the headline number. Since the inventory data in the BE
significantly by not-fully-compensated commodity price changes, it is difficult to tease out of these numbers the true
uncorrected oil pricing anomalies or genuine changes to supply chain stocks and/or manufacturing schedules).

-- The previously reported sharp decrease in government spending became slightly more negative, removing -1.38%

-- Declining exports removed -0.55% from the headline number (an improvement, however, of +0.26% from the -0.8
reported). The net drag from exports is consistent with a generally weakening global economy.

-- And reduced imports actually added +0.79% to the headline growth rate (up from the 0.56% in the previous report
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 upward to 1.69%, still some -0.67
BEA's "bottom line" measurement of the economy.

-- And real per-capita disposable income was revised downward slightly to $33,143 per year, although that revised nu
above the numbers published for 3Q-2012. From an economic standpoint however, a significant share of that was abs
soared from 3.6% to 4.7%, pulling $365 of that annual improvement into savings or deleveraging activities instead of

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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 + (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)	$15.9	=	$11.23	+	$2.1	+	$3.0	+	$-0.
% of GDP	100.0%	=	71.0%	+	13.1%	+	19.2%	+	-3.4
Contribution to GDP Growth %	0.14%	=	1.47%	+	-0.19%	+	-1.38%	+	0.24

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc
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	1.03%	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	1.36%	0.12%	0.56%	1.18%	1.19%	1.75%	1.39%	-0.14%	0.87%	-0.10%	1.58%	-0.1
Inventories	-1.55%	0.73%	-0.46%	-0.39%	2.53%	-1.07%	0.01%	-0.54%	-1.61%	1.97%	0.07%	2.2
Government	-1.38%	0.75%	-0.14%	-0.60%	-0.43%	-0.60%	-0.16%	-1.49%	-0.94%	-0.06%	0.59%	-0.6
Exports	-0.55%	0.27%	0.72%	0.60%	0.21%	0.83%	0.56%	0.75%	1.24%	1.18%	1.14%	0.7
Imports	0.79%	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	1.69%	2.36%	1.72%	2.36%	1.57%	2.35%	2.47%	0.62%	4.00%	0.63%	2.17%	0.1

Summary

Despite the new-found minuscule "growth" reported in this release, there are ample reasons to remain cautious about

-- Even as revised this data represents an economy that is statistically in a dead stall, "growing" at a rate some 3% les
greatest downward quarter-to-quarter change since the fourth quarter of 2008).

-- This data is still reporting 4Q-2012, a quarter that in retrospect may be viewed as the last gasp of the "Great Recov
economic headwinds created by reductions in consumer take-home pay, rising gas prices, sequestered federal spendi
global trade. If all other components of the economy stay the same, those factors alone could remove something like
"growth" by the end of the first quarter of 2013**:** the normalization of FICA deductions alone could reduce consumer
number down by 1%, the $.50 per gallon increase in gas prices could similarly remove another 0.5% from the headli
easily reduce the headline number by another 1% and the federal budget sequestrations -- if fully implemented and su
maximum, despite doomsday rhetoric) an additional 0.5% from the headline number.

-- However, with respect to the "sequestrations"**:** political will and doomsday rhetoric notwithstanding, even if they a
mandate (or inaction) there may be no reason to expect actual short term government spending to change. The budge
quarter of 2012 (when a defense spending spree created a phantom boost to pre-election economic data by bringing s
and incidentally across a fiscal year boundary) probably taught the US Federal bureaucracy that as a practical matter
impunity from the budgetary intentions of the fiscally conservative majority in the US House of Representatives.

In the day-to-day reality of this Administration there simply may be no legal or political consequences to overspendi
in pursuit of the perceived greater good.