Consumer Metrics Institute News

March 28, 2013: BEA Revises 4th Quarter 2012 GDP Upward to a 0.38% Annual Growth Rate

(Web page version is here)

In their third estimate of the US GDP for the fourth quarter of 2012 the Bureau of Economic Analysis (BEA) reporte
0.38% annualized rate, roughly 2.7% worse than the 3.09% growth rate that they recorded for the prior quarter. The r
previously published estimate for the fourth quarter, but as such it merely represents an improved understanding of hi
data and not improved month-to-month economic activity.

Although the headline number shows both an upward revision and positive growth, the 0.38% number remains not st
stalled economy. The positive revisions came primarily from fixed investments, with "less negative" exports providin
activities were marginally weaker than previously reported, and governmental spending continued to shrink.

For this set of revisions the BEA assumed annualized net aggregate inflation of 0.97%. 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 1.51% growth rate. If data for online prices from the Billion Prices Project had been used to deflate the E
would have been 1.35% 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 +5.36%. It should be noted that more than half of this increase in
increased personal savings (up about $131 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 slightly to 1.0
estimate).

-- The contribution made by consumer services dropped by over a third to 0.27% (down from 0.44% previously repo

-- The growth rate contribution from private fixed investments was up sharply to 1.69% (from 1.36% in the previous
the upward movement in the headline number.

-- Inventory draw-downs moderated slightly, removing -1.52% from the headline number (-1.55% previously). Since
reports are often impacted significantly by not-fully-compensated commodity price changes, it is difficult to tease ou
any changes (e.g., uncorrected oil pricing anomalies or genuine changes to supply chain stocks and/or manufacturing

-- The previously reported sharp contraction in government spending became even slightly more negative, removing

-- Declining exports removed -0.40% from the headline number (an improvement, however, of +0.15% from the -0.5
reported). The net drag from exports continues to be consistent with a generally weakening global economy, and is a
continuing in the current quarter.

-- And reduced imports actually added +0.73% to the headline growth rate (down slightly from the 0.79% in the prev
positive component in the GDP equation even though weakening demand for imports is often actually a sign of a slo

-- The annualized growth rate of "real final sales of domestic product" was revised upward to 1.90%, still some -0.46
BEA's "bottom line" measurement of the economy.

-- And real per-capita disposable income was revised downward a net $35 to $33,138 per year (although that revised
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	=	$11.2	+	$2.1	+	$3.0	+	$-0.
% of GDP	100.0%	=	70.9%	+	13.2%	+	19.2%	+	-3.3
Contribution to GDP Growth %	0.38%	=	1.29%	+	0.17%	+	-1.41%	+	0.33

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	0.38%	3.09%	1.26%	1.97%	4.10%	1.28%	2.48%	0.08%	2.39%	2.60%	2.24%	2.3
Consumer Goods	1.02%	0.85%	0.08%	1.11%	1.29%	0.33%	-0.22%	1.27%	1.78%	0.86%	0.76%	1.1
Consumer Services	0.27%	0.26%	0.99%	0.61%	0.16%	0.85%	0.92%	0.95%	1.06%	0.88%	1.05%	0.5
Fixed Investment	1.69%	0.12%	0.56%	1.18%	1.19%	1.75%	1.39%	-0.14%	0.87%	-0.10%	1.58%	-0.1
Inventories	-1.52%	0.73%	-0.46%	-0.39%	2.53%	-1.07%	0.01%	-0.54%	-1.61%	1.97%	0.07%	2.2
Government	-1.41%	0.75%	-0.14%	-0.60%	-0.43%	-0.60%	-0.16%	-1.49%	-0.94%	-0.06%	0.59%	-0.6
Exports	-0.40%	0.27%	0.72%	0.60%	0.21%	0.83%	0.56%	0.75%	1.24%	1.18%	1.14%	0.7
Imports	0.73%	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	1.90%	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 modest growth reported in this release, there remain reasons to be cautious about the economy**:**

-- Even as revised this data represents an economy that is growing at a rate some 2.7% less than during the prior quar
quarter-to-quarter change since the fourth quarter of 2008).

-- As we have mentioned before, 4Q-2012 may be the quarter that in retrospect will be viewed as the last gasp of the
were significant economic headwinds created by reductions in consumer take-home pay, rising gas prices and acceler
all other components of the economy stay the same, those factors alone could remove well over 2% from real-time ec
first quarter of 2013**:** the normalization of FICA deductions alone could reduce consumer spending enough to pull the
$.50 per gallon increase in gas prices could similarly remove another 0.5% from the headline number, and weakening
headline number by another 1%.

-- And lastly, this third estimate had only one significant revision -- the upward restatement of fixed investments, whi
the entire boost to the headline number. And all of that revision was in non-residential construction -- i.e., commercia
to its highest "real" level of activity since the second quarter of 2009.

Judging from that number alone someone might conclude that there is a shortage of vacant office and retail space in t
just be seeing the first tangible signs of a ZIRP (zero interest rate policy) induced "mis-allocation of capital." Presum
good at building commercial structures (whether they are really needed or not), and apparently they have access to es
recently seen how that same scenario has played out in China, where empty shopping centers and empty cities have b

We have wondered before if we are experiencing the Japanization of the US economy. Maybe commercial real estate