Consumer Metrics Institute News

April 26, 2013: BEA Estimates 1st Quarter 2013 GDP Growing at 2.5% Annual Rate

(Web page version is here)

In their first estimate of the US GDP for the first quarter of 2013, the Bureau of Economic Analysis (BEA) reported t economy was growing at a 2.50% annualized rate, some 2.12% better than the 0.38% growth rate for the prior quarte

Although the headline number itself indicates moderate mid-cycle growth, the details within the BEA's report cast at mixed message for the overall health of the economy. For example: although the overall contribution from consumer spending was up, it came mainly from spending on services (boosting the headline number by 1.46%, and principally on non-discretionary rents and utilities), with consumer spending for goods contributing to the headline number at a r modest 0.78% (down about -0.24% from the prior quarter). And although fixed investments were still contributing a 0.53% to the headline number, that was down over a full percent from the prior quarter. In fact, inventories swinging growth (after contracting during the prior quarter) arguably provided all of the quarter-to-quarter improvement in the growth rate.

For this set of revisions the BEA assumed annualized net aggregate inflation of 1.20%. In contrast, during the first qu seasonally adjusted CPI-U published by the Bureau of Labor Statistics (BLS) recorded a 2.10% annualized inflation r reminder: an understatement of assumed inflation increases the reported headline number -- and in this case the BEA relatively low "deflater" (nearly a full percent below the CPI-U) boosted the published headline rate. If the CPI-U had used to convert the "nominal" GDP numbers into "real" numbers, the reported headline growth rate would have been more modest 1.63%.

Finally, one of the bright spots in the prior quarter's data (the previously reported substantial improvements in real pe disposable income) completely reversed in this report -- confirming that the fourth quarter's upward surge in real per disposable income was merely an artifact of payroll "gaming" in anticipation of increasing tax rates. In fact, real per c disposable income contracted during the quarter at an astonishing -5.88% annualized rate -- crashing back to levels th below where they were two years ago. And, as expected, consumers offset the "new" FICA rate increase of 2% by re their savings rate by -2.1%. Although this arguably propped up consumer spending during the quarter, it is important that that spending support came in spite of a sharp contraction in sustainable household incomes.

Among the notable items in the report:

-- The contribution of consumer expenditures for goods to the headline number weakened to 0.78% (down from 1.02 fourth quarter of 2012).

-- The contribution made by consumer services soared to 1.46% (up 1.19% from the previous quarter). As noted abov increase came from higher spending for non-discretionary rents and utilities.

-- The growth rate contribution from private fixed investments dropped sharply to 0.53% (from 1.69% in the previous quarter).

-- Inventories grew, raising the headline number by 1.03% (reversing their drag on the previous quarter's headline of

-- The previous quarter's sharp contraction in government spending moderated somewhat, and it is now removing -0.

from the headline number (an improvement of 0.61% from the -1.41% drag reported for the prior quarter -- and almo that "improvement" came from Federal defense spending).

-- Improving exports added 0.40% to the headline number (perfectly reversing the -0.40% drag reported for fourth qu 2012).

-- But that good news was more than completely offset by a significant drop in the contribution from imports -- whicl removed -0.90% from the headline number after adding +0.73% in the prior quarter. Since this drag on the headline r can come from increasing domestic demand for foreign goods it is often spun as a sign of a strengthening economy, a it can often be merely a sign of rising commodity prices.

-- The annualized growth rate of "real final sales of domestic product" dropped to 1.47% (from 1.90% in the prior qu This is the BEA's "bottom line" measurement of the economy, and the -0.43% erosion in that growth rate is a conseq the surging inventories.

-- And real per-capita disposable income took a monumental hit**:** it dropped by an annualized $498 from quarter to qu while personal savings plunged to 2.6% (dropping 2.1% from the 4.7% recorded in the prior quarter). Real per-capita disposable income is now down $123 annually from 1Q-2011 -- a full two years ago.

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 + (exports - imports)

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 percentage growth number) are as follows**:**

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M)
Annual $ (trillions)	$16.0	=	$11.4	+	$2.2	+	$3.0	+	$-0.5
% of GDP	100.0%	=	71.0%	+	13.5%	+	18.9%	+	-3.4%

Contribution to GDP Growth %	2.50%	=	2.24%	+	1.56%	+	-0.80%	+	-0.50%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc from the table below, which breaks out the component contributions in more detail and over time. In the table we hav the "C" component into goods and services, split the "I" component into fixed investment and inventories, separated c from imports, added a line for the BEA's "Real Finals Sales of Domestic Product" and listed the quarters in columns w most current to the left**:**

Quarterly Changes in % Contributions to GDP

	1Q-2013	4Q-2012	3Q-2012	2Q-2012	1Q-2012	4Q-2011	3Q-2011	2Q-2011	1Q-2011	4Q-2010	3Q-2010	2Q-2
Total GDP Growth	2.50%	0.38%	3.09%	1.26%	1.97%	4.10%	1.28%	2.48%	0.08%	2.39%	2.60%	2.2
Consumer Goods	0.78%	1.02%	0.85%	0.08%	1.11%	1.29%	0.33%	-0.22%	1.27%	1.78%	0.86%	0.7
Consumer Services	1.46%	0.27%	0.26%	0.99%	0.61%	0.16%	0.85%	0.92%	0.95%	1.06%	0.88%	1.0
Fixed Investment	0.53%	1.69%	0.12%	0.56%	1.18%	1.19%	1.75%	1.39%	-0.14%	0.87%	-0.10%	1.5
Inventories	1.03%	-1.52%	0.73%	-0.46%	-0.39%	2.53%	-1.07%	0.01%	-0.54%	-1.61%	1.97%	0.0
Government	-0.80%	-1.41%	0.75%	-0.14%	-0.60%	-0.43%	-0.60%	-0.16%	-1.49%	-0.94%	-0.06%	0.5
Exports	0.40%	-0.40%	0.27%	0.72%	0.60%	0.21%	0.83%	0.56%	0.75%	1.24%	1.18%	1.1
Imports	-0.90%	0.73%	0.11%	-0.49%	-0.54%	-0.85%	-0.81%	-0.02%	-0.72%	-0.01%	-2.13%	-2.9
Real Final Sales	1.47%	1.90%	2.36%	1.72%	2.36%	1.57%	2.35%	2.47%	0.62%	4.00%	0.63%	2.1

Summary

On the surface a 2.50% annualized growth rate at nearly full four years into a recovery is good news -- and a growth r many other global economies would currently be pleased to be reporting. And looking at the details provides us with reasons for optimism**:**

-- Consumer spending was sustained in spite of tax increases,

-- Fixed investments continued to grow,

-- Exports swung back to growth after a quarter of contraction.

But two major components within the data continue to suggest reasons for caution**:**

-- Inventories are growing once again, with the quarter-to-quarter swing in inventories (+2.55%) contributing more th entire improvement in the headline number,

-- Real per capita disposable incomes took a major hit, and consumers had to dip into savings to sustain spending lev face of increasing taxes.

Clearly the last two items are cause for concern for the long term health of the economy. We have argued before that ongoing contraction in real per capita disposable income has been the most critical feature of the BEA data releases d the past several years -- and we see no reason to change that argument now.