Consumer Metrics Institute News

May 30, 2013: BEA Revises 1st Quarter 2013 GDP Growth Down Slightly To 2.38% Annual Rate

(Web page version is here)

In their second estimate of the US GDP for the first quarter of 2013, the Bureau of Economic Analysis (BEA) reporte
the economy was growing at a 2.38% annualized rate, only 0.12% lower than the 2.50% growth rate previously publi

Nearly all of the revisions in the details of the report were similarly modest. Consumer spending on goods is now rep
have been slightly better, while consumer spending on services was essentially unchanged. Aggregate consumer sper
now reported to have provided the entire net growth of the economy.

The biggest changes in the report came from inventories (which are still growing, but at a much slower rate), and fore
trade -- where both exports and imports weakened.

For this set of revisions the BEA assumed annualized net aggregate inflation of 1.18%. In contrast, during the first qu
(i.e., from December to March) the seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (BL
by 2.10% (annualized). As a reminder**:** an understatement of assumed inflation increases the reported headline numbe
in this case the BEA's relatively low "deflater" (nearly a full percent below the CPI-U) boosted the published headlin
the CPI-U had been used to convert the "nominal" GDP numbers into "real" numbers, the reported headline growth r
would have been a much more modest 1.49%.

Finally, real per capita disposable income was revised lower yet again. In fact, real per capita disposable income cont
during the quarter at an astonishing -9.03% annualized rate, taking it to a level below where it was two years ago. An
personal savings rate was adjusted down once more -- this time to 2.3%.

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

-- The contribution of consumer expenditures for goods to the headline number improved to 0.98% (up 0.20% from t
estimate).

-- The contribution made by consumer services was essentially unchanged at 1.42% (from 1.46% in the earlier report
of the increase in "services" spending relative to the prior quarter came from higher spending for non-discretionary re
utilities.

-- The growth rate contribution from private fixed investments was unchanged at 0.53% (and still down from 1.69% i
previous quarter).

-- Inventories were still shown as growing, contributing 0.63% to the headline growth rate (although that number is d
from the 1.03% contribution in the prior report).

-- The previously reported contraction in government intensified somewhat, and it is now removing nearly a full perc
(-0.97%) from the headline number (although this is an improvement from the -1.41% drag reported for the prior qua
and almost all of that "improvement" came from Federal defense spending).

-- Exports weakened relative to the earlier estimate, adding only 0.11% to the headline number.

-- But that bad news was more than completely offset by a significant drop in imports -- which removed a more mode
-0.32% from the headline number after removing -0.90% in the prior report. Since this relative improvement in the he
number can be the consequence of decreasing domestic demand for foreign goods, it is arguably a sign of a weakenin
economy. It may also be merely a sign of softening commodity prices.

-- The annualized growth rate of "real final sales of domestic product" rose to 1.75% (from 1.47% in the prior report)
the BEA's "bottom line" measurement of the economy -- and it remains weaker than the headline number because of
ongoing buildup of inventories.

-- And as mentioned above, real per-capita disposable income took a monumental hit**:** it is now reported to have drop
an annualized $780 from quarter to quarter, while personal savings plunged to 2.3% (dropping 2.4% from the 4.7% re
in the prior quarter). Real per-capita disposable income is now down $193 annually from 1Q-2011 -- a full two years

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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 + (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%	+	13.4%	+	18.9%	+	-3.4%
Contribution to GDP Growth %	2.38%	=	2.40%	+	1.16%	+	-0.97%	+	-0.21%

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
from imports, added a line for the BEA's "Real Finals Sales of Domestic Product" and listed the quarters in columns
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	2.38%	0.38%	3.09%	1.26%	1.97%	4.10%	1.28%	2.48%	0.08%	2.39%	2.60%	2.2
Consumer Goods	0.98%	1.02%	0.85%	0.08%	1.11%	1.29%	0.33%	-0.22%	1.27%	1.78%	0.86%	0.7
Consumer Services	1.42%	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	0.63%	-1.52%	0.73%	-0.46%	-0.39%	2.53%	-1.07%	0.01%	-0.54%	-1.61%	1.97%	0.0
Government	-0.97%	-1.41%	0.75%	-0.14%	-0.60%	-0.43%	-0.60%	-0.16%	-1.49%	-0.94%	-0.06%	0.5
Exports	0.11%	-0.40%	0.27%	0.72%	0.60%	0.21%	0.83%	0.56%	0.75%	1.24%	1.18%	1.1
Imports	-0.32%	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	1.75%	1.90%	2.36%	1.72%	2.36%	1.57%	2.35%	2.47%	0.62%	4.00%	0.63%	2.1

Summary

As we noted last month, on the surface a 2.38% annualized growth rate at nearly full four years into a recovery is goo
-- and a growth rate that many other global economies would currently be pleased to be reporting. And looking at the
provides us with some reasons for optimism**:**

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

-- Fixed investments continued to grow (although at a slower pace than in the prior quarter),

-- Exports were still growing (slightly) after the prior quarter's of contraction.

But one overriding issue in the data continues to suggest a reason for caution**:**

-- Real per capita disposable incomes took a major hit, and it would appear that consumers had to dip into savings to
spending levels in the face of the January increase in FICA taxes. The astonishing annualized contraction of real per
disposable income bears repeating: -9.03% -- a full percent and a half worse than the -7.52% contraction rate recorde
first quarter of 2009 (the worst quarterly contraction recorded during the official duration of the "Great Recession").

The contraction in real per capita disposable income caused the savings rate to plunge to 2.3%. This is the lowest sav
since the 3rd quarter of 2007. Which begs the question: is it 2007 once again and consumers are leveraging up once r
joyous optimism (as the equity markets seem to assume)? Or, are households dipping into savings (and defacto levera
out of necessity to offset the "new" FICA rate increase of 2% (by reducing their savings rate by -2.4% relative to 4Q-

Our view is that the household savings rate is a short term shock absorber for household budgets that can require a qu
more to adjust to the realities of new taxes or falling incomes. Ultimately, however, households adjust to the new rea
tightening their spending. In this case we would be shocked if spending does not soften during the balance on 2013.

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