Consumer Metrics Institute News

June 26, 2013: BEA Revises 1st Quarter 2013 GDP Growth Downward To 1.78% Annual Rate

(Web page version is here)

In their third estimate of the US GDP for the first quarter of 2013, the Bureau of Economic Analysis (BEA) reported economy was growing at a 1.78% annualized rate, a full 0.6% lower than the 2.38% growth rate previously publishec

A significant revision to consumer spending on services was large enough to account for the entire downward adjustr the headline number. That was accompanied by materially weaker exports and fixed investments. All of those revisic enough to lower the BEA's bottom line "real final sales of domestic product" by over a half percent.

For this set of revisions the BEA assumed annualized net aggregate inflation of 1.26%. 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), and the price index published by the Billion Prices Project (BPP) rose at an annualized rate o As a reminder**:** an understatement of assumed inflation increases the reported headline number -- and in this case the relatively low "deflater" boosted the published headline rate. If the CPI-U had been used to convert the "nominal" GI numbers into "real" numbers, the reported headline growth rate would have been a much more modest 0.96%. And if index (which arguably best reflects the experiences of the American consumer) had be used as the "deflater," the eco would have been reported to have been contracting at a -2.30% annualized rate.

Finally, real per capita disposable income was revised lower once more. In this report real per capita disposable incor contracted during the quarter at an astonishing -9.21% annualized rate.

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

-- The contribution of consumer expenditures for goods to the headline number improved slightly to 1.04% (up 0.06% the prior estimate).

-- The contribution made by consumer services dropped substantially to 0.80% (from 1.42% in the earlier report).

-- The growth rate contribution from private fixed investments was lowered to 0.39% (down well over a percent from 1.69% growth rate in the previous quarter).

-- Inventories were still shown as growing, contributing 0.57% to the headline growth rate (although that number is d -0.06% from the prior report).

-- The previously reported contraction in government was largely unchanged, and it continues to remove nearly a full (-0.93%) 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 substantially relative to the earlier estimate, and they are now subtracting -0.15% from the headl number.

-- But once again that bad news was more than completely offset by an even larger drop in imports -- which now add +0.06% to the headline number after removing -0.32% in the prior report. Since this mathematical "addition" to the h 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" dropped to 1.21% (from 1.75% in the prior rep This is the BEA's "bottom line" measurement of the economy -- and it remains weaker than the headline number beca the ongoing buildup of inventories.

-- And as mentioned above, real per-capita disposable income took another hit: it is now reported to have dropped by annualized $796 from quarter to quarter. Real per-capita disposable income is now down $209 annually from 1Q-201 full two years ago.

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	+	$2.1	+	$3.0	+	$-0.5
% of GDP	100.0%	=	71.0%	+	13.4%	+	18.9%	+	-3.4%
Contribution to GDP Growth %	1.78%	=	1.84%	+	0.96%	+	-0.93%	+	-0.09%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best und 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	1.78%	0.38%	3.09%	1.26%	1.97%	4.10%	1.28%	2.48%	0.08%	2.39%	2.60%	2.24
Consumer Goods	1.04%	1.02%	0.85%	0.08%	1.11%	1.29%	0.33%	-0.22%	1.27%	1.78%	0.86%	0.7
Consumer Services	0.80%	0.27%	0.26%	0.99%	0.61%	0.16%	0.85%	0.92%	0.95%	1.06%	0.88%	1.0
Fixed Investment	0.39%	1.69%	0.12%	0.56%	1.18%	1.19%	1.75%	1.39%	-0.14%	0.87%	-0.10%	1.5
Inventories	0.57%	-1.52%	0.73%	-0.46%	-0.39%	2.53%	-1.07%	0.01%	-0.54%	-1.61%	1.97%	0.0
Government	-0.93%	-1.41%	0.75%	-0.14%	-0.60%	-0.43%	-0.60%	-0.16%	-1.49%	-0.94%	-0.06%	0.5
Exports	-0.15%	-0.40%	0.27%	0.72%	0.60%	0.21%	0.83%	0.56%	0.75%	1.24%	1.18%	1.14
Imports	0.06%	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	1.21%	1.90%	2.36%	1.72%	2.36%	1.57%	2.35%	2.47%	0.62%	4.00%	0.63%	2.1

Summary

At best this new release reports an economy with lackluster growth, created at great expense by a combination of unprecedented fiscal and monetary stimulus that have obviously progressed well past the point of diminishing returns fair, many other national governments would be thrilled to be reporting a 1.78% annualized growth rate. But that obs in itself (without mentioning the plunging export numbers) also reflect global economic headwinds that do not bode sustaining even lackluster numbers over the balance of the year.

And we continue to note the one truly serious domestic issue within the data**:**

-- Real per capita disposable incomes took yet another hit. The astonishing annualized contraction of real per capita disposable income has now reached -9.21% -- dwarfing the -7.52% contraction rate recorded in the first quarter of 20 worst quarterly contraction recorded during the official duration of the "Great Recession").

From time to time we may quarrel with the quality of the BEA's deflaters. And frankly we may even find that at face the lackluster numbers amount to nothing more than a sham "recovery." But the most shocking part of this report is g obvious from the real per capita disposable income numbers**:** all of the unprecedented fiscal and monetary stimulus h American households materially worse off than they were two years ago.

And sadly we wonder whether anyone in Washington either notices or really cares.