Consumer Metrics Institute News

July 31, 2013: BEA Estimates 2nd Quarter 2013 GDP Growth At 1.68% Annual Rate, While Revising 1st Quarter Sharply Downward

(Web page version is here)

In their first estimate of the US GDP for the second quarter of 2013, the Bureau of Economic Analysis (BEA) reporte economy was growing at a 1.68% annualized rate, down slightly from the 1.78% growth rate previously reported for At the same time they revised the 1st quarter sharply downward from the previously published 1.78% to 1.14%.

The revision to the 1st quarter numbers was part of a comprehensive restatement of all historic GDP numbers from 1 Some of the revisions were the result of better data, other revisions were the result of accounting changes, and still ot resulted from changing the "base year" for the inflation adjustments from 2005 to 2009. Notable among the net revisi quarter of 2011, which the BEA now concedes was in significant contraction**:**

BEA's Revisions to US Economic Growth

Quarter	New Rate	Prior Rate	Net Change
1Q-2013	1.14%	1.78%	**-0.64%**
4Q-2012	0.14%	0.38%	**-0.24%**
3Q-2012	2.78%	3.09%	**-0.31%**
2Q-2012	1.20%	1.26%	**-0.06%**
1Q-2012	3.71%	1.97%	**+1.74%**
4Q-2011	4.86%	4.10%	**+0.76%**
3Q-2011	1.37%	1.28%	**+0.09%**
2Q-2011	3.19%	2.48%	**+0.71%**
1Q-2011	-1.29%	0.08%	**-1.37%**
4Q-2010	2.80%	2.39%	**+0.41%**
3Q-2010	2.78%	2.60%	**+0.18%**
2Q-2010	3.91%	2.24%	**+1.67%**
1Q-2010	1.59%	2.33%	**-0.74%**
4Q-2009	3.87%	4.03%	**-0.16%**
3Q-2009	1.27%	1.46%	**-0.19%**
2Q-2009	-0.43%	-0.32%	**-0.11%**
1Q-2009	-5.44%	-5.25%	**-0.19%**

The accounting changes in these revisions (back to 1929) convert the treatment of some line items from a cash to acc
example, expenditures for R&D and intellectual property (including the creation of movie, TV, music, literary or oth
properties) are now capitalized, and they impact the consumption numbers in the GDP only as the properties are depr
specific depreciation schedules). Additionally, many of the closing costs associated with the purchase of residential r
also capitalized along with the cost of the structure and land. Furthermore, defined benefit pension plans are now full
accrual basis -- so that the unfunded liabilities of such plans are captured as expenses based on the net present value o
actuarially earned. These accounting changes caused the nominal (pre-inflation adjustment) GDP numbers to be nudg
because the increases are spread out back to 1929 the impact of those revisions on the relative growth rates is minima

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2nd Quarter 2013

During 2Q-2013 consumer expenditures, inventories and imports had significant downward impact on the headline n
spots were fixed investment, government expenditures (federal, state and local) and exports.

For this set of revisions the BEA assumed annualized net aggregate inflation of 0.70%. In contrast, during the first qu
December to March) the seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (BLS) rose by
(annualized), and the price index published by the Billion Prices Project (BPP) rose at an annualized rate of 1.76%. A
understatement of assumed inflation increases the reported headline number -- and in this case the BEA's relatively lo
boosted the published headline rate. If the CPI-U had been used to convert the "nominal" GDP numbers into "real" nu
reported headline growth rate would have been a somewhat lower +1.35%. And if the BPP index (which arguably be
experiences of the American consumer) had be used as the "deflater," the economy would have been a much more m
annualized rate.

Finally, real per capita disposable income reportedly improved by $244 per year and personal savings increased a hal
The increase in the savings rate came at the expense of consumer expenditures.

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

-- The contribution of consumer expenditures for goods to the headline number weakened slightly to 0.79% (down fr
0.85%).

-- The contribution made by consumer services dropped substantially to 0.43% (from 0.69% revised).

-- The growth rate contribution from private fixed investments was increased to 0.93% (up sharply from a revised co
-0.23% in the previous quarter).

-- Inventories were still shown as growing, contributing 0.41% to the headline growth rate (although that number is d
revised 0.93% rate in the prior quarter).

-- The negative impact from governmental contraction has largely abated -- dropping to -0.08% from a revised -0.82
quarter. This stabilization of the negative impact of governmental expenditures on the headline number was spread a
classes of expenditures -- although Federal defense spending once again made the most significant change.

-- Exports swung into a positive contribution to the overall growth rate, adding +0.71% to the headline number after p
-0.18% in the revised first quarter.

-- But once again that good news was more than completely offset by a much larger negative impact from imports -- subtracted -1.51% from the headline number (after removing only -0.10% in the prior quarter).

-- The annualized growth rate of "real final sales of domestic product" improved to 1.27% (up from a drastically revis 0.21% in the previous quarter). This is the BEA's "bottom line" measurement of the economy -- and it remains weake headline number because of the ongoing buildup of inventories.

-- And as mentioned above, real per-capita disposable income improved and it is now reported to have increased by a from quarter to quarter.

The Numbers, New and 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 - impo

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 number) are as follows**:**

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M)
Annual $ (trillions)	$16.6	=	$11.4	+	$2.6	+	$3.1	+	$-0.5
% of GDP	100.0%	=	68.7%	+	15.8%	+	18.8%	+	-3.2%
Contribution to GDP Growth %	1.68%	=	1.22%	+	1.34%	+	-0.08%	+	-0.80%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc table below, which breaks out the component contributions in more detail and over time. In the table we have split th

into goods and services, split the "I" component into fixed investment and inventories, separated exports from import
the BEA's "Real Finals Sales of Domestic Product" and listed the quarters in columns with the most current to the lef

Quarterly Changes in % Contributions to GDP

	2Q-2013	1Q-2013	4Q-2012	3Q-2012	2Q-2012	1Q-2012	4Q-2011	3Q-2011	2Q-2011	1Q-2011	4Q-2010	3Q-2
Total GDP Growth	1.68%	1.14%	0.14%	2.78%	1.20%	3.71%	4.86%	1.37%	3.19%	-1.29%	2.80%	2.7
Consumer Goods	0.79%	0.85%	0.85%	0.84%	0.50%	1.04%	1.14%	0.29%	0.05%	0.60%	1.66%	0.8
Consumer Services	0.43%	0.69%	0.29%	0.31%	0.78%	0.94%	0.51%	1.14%	0.98%	0.81%	1.21%	1.0
Fixed Investment	0.93%	-0.23%	1.63%	0.39%	0.68%	1.21%	1.39%	1.96%	1.16%	-0.05%	1.13%	-0.0
Inventories	0.41%	0.93%	-2.00%	0.60%	-0.91%	0.36%	2.73%	-1.60%	0.72%	-1.06%	-1.64%	1.9
Government	-0.08%	-0.82%	-1.31%	0.67%	0.05%	-0.28%	-0.31%	-0.52%	-0.25%	-1.61%	-0.87%	-0.0
Exports	0.71%	-0.18%	0.15%	0.05%	0.51%	0.56%	0.38%	0.92%	0.64%	0.48%	1.47%	1.2
Imports	-1.51%	-0.10%	0.53%	-0.08%	-0.41%	-0.12%	-0.98%	-0.82%	-0.11%	-0.46%	-0.15%	-2.1
Real Final Sales	1.27%	0.21%	2.14%	2.18%	2.11%	3.35%	2.13%	2.97%	2.47%	-0.23%	4.44%	0.8

Summary

The new set of numbers for the 2nd quarter of 2013 in fact show weaker growth ***than previously reported numbers*** f
but through the magic of historic revisions the headline (and the press release) can now tout quarter-to-quarter econo
-- which should excite any markets that are blindly eager for good news, even if that good news is constructed from a
history.

Unfortunately, we can't ignore a pattern of significant downward revisions to recent past data -- suggesting a deeply r
bias in the BEA's "real time" reporting, including each of the prior four quarters. Even the number published just last
revised materially downward by -0.64% (i.e., over a third of the previously reported growth has vanished).

And we now find out that the US economy was in contraction during the 1st quarter of 2011. Why are we finding out
now?

That last question probably speaks to the mindset of the BEA (or perhaps their political handlers). Whether intended
GDP data clearly does not provide relevant information about the "real-time" economy -- and in that regard it has fail
and dramatically. And there is nothing to suggest that this current report is meaningfully better.

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