Consumer Metrics Institute News

September 26, 2013: BEA Leaves 2nd Quarter 2013 GDP Growth Mostly Unchanged At 2.48% Annual Rate

(Web page version is here)

In their third estimate of the US GDP for the second quarter of 2013, the Bureau of Economic Analysis (BEA) report
economy was growing at a 2.48% annualized rate, down only slightly from the 2.52% growth rate previously reporte
quarter. The revision resulted from several minor adjustments, with slower growth in inventories being the largest sin

Consumer spending on goods and services were not changed materially in this revision. Inventory growth was somev
previously reported, and the contraction rate for governmental expenditures was also revised lower -- remaining signi
contraction levels recorded for much of the past four years.

For this set of revisions the BEA assumed annualized net aggregate inflation of 0.58%. In contrast, during the second
March to June) the seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (BLS) rose by 1.04%
and the price index published by the Billion Prices Project (BPP) rose at an annualized rate of 1.76%. As a reminder**:**
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 +2.03%. 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 more modest -
annualized rate.

Finally, real per capita disposable income was revised upward by $14 per year and the personal savings rate was uncl
remaining below the savings rates we have typically seen since households began deleveraging in 2008.

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

-- The contribution of consumer expenditures for goods to the headline number weakened slightly to 0.71% (down fr
previously reported).

-- The contribution made by consumer services improved slightly to 0.53% (from 0.48%).

-- The growth rate contribution from private fixed investments was upgraded somewhat to 0.96% (from 0.90%).

-- Inventories were shown as growing slower than previously estimated, contributing only +0.41% to the headline gro
(compared to the +0.59% previously reported, and down materially from the revised 0.93% rate in the prior quarter).

-- The negative impact from governmental contraction moderated further to -0.07% -- and this number continued an '
sorts from the revised -0.82% in the previous quarter.

-- Exports contributed 1.04% to the overall growth rate, down slightly from the 1.11% previously reported (but still u
from the -0.18% contraction recorded in the first quarter).

-- And the impact from imports was largely unchanged, now subtracting -1.10% from the headline number -- still mo
growth provided by exports.

-- The annualized growth rate for "real final sales of domestic product" improved to 2.07% (and still up sharply from
in the previous quarter). This is the BEA's "bottom line" measurement of the economy -- which remains weaker than
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, 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 - 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)	$16.7	=	$11.4	+	$2.6	+	$3.1	+	$-0.5
% of GDP	100.0%	=	68.6%	+	15.8%	+	18.7%	+	-3.1%
Contribution to GDP Growth %	2.48%	=	1.24%	+	1.37%	+	-0.07%	+	-0.06%

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	2.48%	1.14%	0.14%	2.78%	1.20%	3.71%	4.86%	1.37%	3.19%	-1.29%	2.80%	2.7
Consumer Goods	0.71%	0.85%	0.85%	0.84%	0.50%	1.04%	1.14%	0.29%	0.05%	0.60%	1.66%	0.8
Consumer Services	0.53%	0.69%	0.29%	0.31%	0.78%	0.94%	0.51%	1.14%	0.98%	0.81%	1.21%	1.0
Fixed Investment	0.96%	-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	-0.07%	-0.82%	-1.31%	0.67%	0.05%	-0.28%	-0.31%	-0.52%	-0.25%	-1.61%	-0.87%	-0.0
Exports	1.04%	-0.18%	0.15%	0.05%	0.51%	0.56%	0.38%	0.92%	0.64%	0.48%	1.47%	1.2
Imports	-1.10%	-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	2.07%	0.21%	2.14%	2.18%	2.11%	3.35%	2.13%	2.97%	2.47%	-0.23%	4.44%	0.8

Summary

Since this set of revisions is neither material nor in any sense final -- the BEA being very fond of subsequent massive
that most recently dated back to 1929 -- it is probably time to step back and notice one of the major changes in the co
numbers over the past year or so, which appears lost in the current budget deficit and debt debates**:**

Governmental expenditures are no longer contracting at a rate that significantly impacts the headline number.

In fact, the era of contracting governments seems to have ended. In the first quarter of 2011 aggregate governmental
was shaving -1.61% from the headline number, and as recently as the 4th quarter of 2012 the headline number was be
-1.31% by shrinking governmental expenditures (although in "fairness" it should be mentioned that the 4Q-2012 "co
the one-quarter reversal of the massive 3Q-2012 DOD pre-election contracting spree that significantly and artificially
headline number just days before the election -- pulling contract spending forward either to game the numbers or avo
sequesters, depending on how cynical you might be).

Changes in governmental expenditure rates generally lag the private sector economic spending by a year or so. Durin
Recession" aggregate (and stimulus enhanced) real governmental expenditures didn't peak until the third quarter of 2
quarters after real governmental receipts peaked and well after the private sector had tanked. Since that 3Q-2009 spe
aggregate real governmental spending has fallen 6.7% (5.5% at the Federal level and 7.5% at the state and local level
material, but measured from an unsustainable and stimulus laden peak.

Not surprisingly, with stimulus packages in full swing the real aggregate deficit rates peaked in the second quarter of
the aggregate governmental deficit rates have halved -- ***but they remain over twice the levels typical of 2007 and ear***

We are concerned that the happy talk of "recovery" and 2.5% growth rates have led to a political climate where real a governmental deficits running at twice the pre-recession levels seems to be some sort of acceptable new norm -- and for the recent quarters seem to signal that the will for continuing austerity has reached the point of political fatigue lo balance has been achieved between governmental receipts and expenditures.