Consumer Metrics Institute News

November 7, 2013: BEA Estimates 3rd Quarter 2013 GDP Growth at 2.84% Annual Rate

(Web page version is here)

In their first estimate of the US GDP for the third quarter of 2013, the Bureau of Economic Analysis (BEA) reported
growing at a 2.84% annualized rate, up 0.36% from the 2.48% growth rate reported for the prior quarter. The modest
headline growth number came in spite of a weakening contributions from consumer spending (down -0.20% in aggre
(down -0.33%) and exports (down -0.44%). Those softening sectors were more than offset by growing contributions
0.42%), government spending (up 0.11% -- all at the state and local levels) and sharply weakening imports (which ad

For this report the BEA assumed annualized net aggregate inflation of 1.91%. This is the first time in several quarters
the BEA was reasonably close to those recorded by its sister agencies within the US Government. During the third qu
September) the seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (BLS) rose by 1.73% (a
index published by the Billion Prices Project (BPP) rose at an annualized rate of 1.72%. As a reminder**:** an overstatem
decreases the reported headline number -- and in this case the BEA's "deflator" slightly lowered the published headli
been used to convert the "nominal" GDP numbers into "real" numbers, the reported headline growth rate would have
+3.07%, while using the BPP index (which arguably best reflects the experiences of the American consumer) would
higher +3.09% annualized rate.

Finally, real annualized per capita disposable income was reported to have risen by $161 per year and the personal sa
4.7% (from 4.5%). That savings rate had taken a 2.5% hit (a 38% reduction in the savings rate) during the first quarte
absorb the 2% increase in FICA tax rates. The savings rate has now recovered about a quarter of those first quarter cu
exclusively through weaker growth in household expenditures.

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

-- The contribution of consumer expenditures for goods to the headline number increased to 0.99% (up from 0.71% i

-- The contribution made by consumer services plunged to 0.05% (down sharply from 0.53% in the prior quarter). Th
contribution from consumer spending on both goods and services lowered the headline number -0.20% relative to 2Q

-- The growth rate contribution from private fixed investments weakened materially to 0.63% (from 0.96%).

-- Inventories were shown as growing faster than during the prior quarter, contributing +0.83% to the headline growt
the +0.41% contribution during the prior quarter).

-- A growth in net governmental expenditures added 0.04% to the headline number, with all of that growth occurring

-- Exports contributed only 0.60% to the overall growth rate, down sharply from the 1.04% reported for the second q

-- And imports were the largest single contributor to the reported improving growth -- by virtue of now subtracting o
headline number (compared to -1.10% during the prior quarter). This resulted primarily from weakening growth in d

-- The annualized growth rate for "real final sales of domestic product" decreased slightly to 2.01% (down from 2.07
This is the BEA's "bottom line" measurement of the economy -- which remains substantially weaker than the headlin

ongoing buildup of inventories.

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

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 -

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
are as follows**:**

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M)
Annual $ (trillions)	$16.9	=	$11.5	+	$2.7	+	$3.1	+	$-0.5
% of GDP	100.0%	=	68.4%	+	16.0%	+	18.6%	+	-2.9%
Contribution to GDP Growth %	2.84%	=	1.04%	+	1.46%	+	0.04%	+	-0.30%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best und
below, which breaks out the component contributions in more detail and over time. In the table we have split the "C"
services, split the "I" component into fixed investment and inventories, separated exports from imports, added a line f
Sales of Domestic Product" and listed the quarters in columns with the most current to the left**:**

Quarterly Changes in % Contributions to GDP

3Q-2013	2Q-2013	1Q-2013	4Q-2012	3Q-2012	2Q-2012	1Q-2012	4Q-2011	3Q-2011	2Q-2011	1Q-2011	4Q-

Total GDP Growth	2.84%	2.48%	1.14%	0.14%	2.78%	1.20%	3.71%	4.86%	1.37%	3.19%	-1.29%	2.8
Consumer Goods	0.99%	0.71%	0.85%	0.85%	0.84%	0.50%	1.04%	1.14%	0.29%	0.05%	0.60%	1.6
Consumer Services	0.05%	0.53%	0.69%	0.29%	0.31%	0.78%	0.94%	0.51%	1.14%	0.98%	0.81%	1.2
Fixed Investment	0.63%	0.96%	-0.23%	1.63%	0.39%	0.68%	1.21%	1.39%	1.96%	1.16%	-0.05%	1.1
Inventories	0.83%	0.41%	0.93%	-2.00%	0.60%	-0.91%	0.36%	2.73%	-1.60%	0.72%	-1.06%	-1.6
Government	0.04%	-0.07%	-0.82%	-1.31%	0.67%	0.05%	-0.28%	-0.31%	-0.52%	-0.25%	-1.61%	-0.8
Exports	0.60%	1.04%	-0.18%	0.15%	0.05%	0.51%	0.56%	0.38%	0.92%	0.64%	0.48%	1.4
Imports	-0.30%	-1.10%	-0.10%	0.53%	-0.08%	-0.41%	-0.12%	-0.98%	-0.82%	-0.11%	-0.46%	-0.1
Real Final Sales	2.01%	2.07%	0.21%	2.14%	2.18%	2.11%	3.35%	2.13%	2.97%	2.47%	-0.23%	4.4

Summary

For the markets this is a "Goldilocks" report**:** not so weak as to elicit real concern, and not so strong as to suggest the
its QE stance. It is also better than expected. But superficial focus on the modest improvement in the headline numbe
worrisome deterioration in key fundamentals**:**

-- Contributions to the headline number from aggregate consumer spending, fixed investments and exports all weake
about a full percent from the growth rate.

-- The "contributions" from growing inventories and weakening domestic demand for imported goods added 1.22% t
Growing inventories and weakening demand for imported goods do not augur well for long term economic growth.

-- Real per capita disposable income is still increasing at an abysmal 0.4% annualized rate. If households continue to
savings rates over the next few quarters (back towards the levels seen prior to the January FICA increase), those incr
come from tightened spending.

That last item speaks to the current plight of households, whose spending still represents over 68% of the US econom
rates in real per capita disposable income, household savings rates well below recent comfort levels and the budgetar
from the new healthcare mandates, it seems unlikely that those consumers will go on any kind of spending spree anyt
fervently Mr. Bernanke may wish it.