Consumer Metrics Institute News

December 20, 2013: BEA Revises 3rd Quarter 2013 GDP Growth Upward Again to 4.12% Annual Rate

(Web page version is here)

In their third and final estimate of the US GDP for the third quarter of 2013, the Bureau of Economic Analysis (BEA
was growing at a 4.12% annualized rate, up another 0.52% from the 3.60% growth rate previously reported for the th
full 1.64% from the second quarter. The improvement in the headline growth number came principally from consump
and goods (adding a new additional 0.40% to the headline), and fixed investment (which improved its contribution by
own "bottom line" growth rate for the economy (the "real final sales of domestic product") strengthened to a 2.45% a

Real annualized per capita disposable income is now reported to have risen by $200 per year during the third quarter
rate decreased slightly to 4.9% (from 5.0% reported earlier). That savings rate had taken a 2.5% hit (a 38% reduction
the first quarter as households struggled to absorb the 2% increase in FICA tax rates. The savings rate has now recove
those first quarter cutbacks -- with the funding of those savings coming mostly through weaker growth in household e

Finally, for this report the BEA assumed annualized net aggregate inflation of 1.98%. This deflator is reasonably clos
sister agencies within the US Government. During the third quarter (i.e., from June to September) the seasonally adju
by the Bureau of Labor Statistics (BLS) rose by 1.73% (annualized), and the price index published by the Billion Pric
annualized rate of 1.72%. As a reminder**:** an overstatement of assumed inflation decreases the reported headline num
BEA's "deflator" slightly lowered the published headline rate. If the CPI-U had been used to convert the "nominal" G
numbers, the reported headline growth rate would have been a somewhat higher +4.46%, while using the BPP index
reflects the experiences of the American consumer) would have generated an even higher +4.47% annualized rate.

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

-- The contribution of consumer expenditures for goods to the headline number increased to 1.03% (up from 0.93% i

-- The contribution made by consumer services improved to 0.32% (up from 0.02% previously reported, but still dow
quarter).

-- The growth rate contribution from private fixed investments strengthened to 0.89% (up from the 0.81% previously
slightly from 0.96% in the prior quarter).

-- Inventories were shown as about the same as previously thought, contributing +1.67% to the headline growth rate (
the +0.41% contribution during the prior quarter).

-- A very slight contraction net governmental expenditures subtracted -0.01% from the headline number, with any rep
exclusively at state and local levels.

-- Exports contributed 0.52% to the overall growth rate, up slightly from the 0.50% previously reported -- but still do
1.04% reported for the second quarter.

-- And imports now subtracted -0.39% from the headline number (compared to -1.10% during the prior quarter).

-- The annualized growth rate for the "real final sales of domestic product" increased to 2.45% (up from the 2.07% in

is the BEA's "bottom line" measurement of the economy -- which remains substantially weaker than the headline nur
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. But that number is still down $317 per year relative to the fourth quarter of 2012 (before the

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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%	=	68.2%	+	16.2%	+	18.6%	+	-3.0%
Contribution to GDP Growth %	4.12%	=	1.35%	+	2.56%	+	0.08%	+	0.13%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc
below, which breaks out the component contributions in more detail and over time. In the table below we have split t
goods and services, split the "I" component into fixed investment and inventories, separated exports from imports, ad
"Real Final 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-2
Total GDP Growth	4.12%	2.48%	1.14%	0.14%	2.78%	1.20%	3.71%	4.86%	1.37%	3.19%	-1.29%	2.80
Consumer Goods	1.03%	0.71%	0.85%	0.85%	0.84%	0.50%	1.04%	1.14%	0.29%	0.05%	0.60%	1.60
Consumer Services	0.32%	0.53%	0.69%	0.29%	0.31%	0.78%	0.94%	0.51%	1.14%	0.98%	0.81%	1.2
Fixed Investment	0.89%	0.96%	-0.23%	1.63%	0.39%	0.68%	1.21%	1.39%	1.96%	1.16%	-0.05%	1.1
Inventories	1.67%	0.41%	0.93%	-2.00%	0.60%	-0.91%	0.36%	2.73%	-1.60%	0.72%	-1.06%	-1.6
Government	0.08%	-0.07%	-0.82%	-1.31%	0.67%	0.05%	-0.28%	-0.31%	-0.52%	-0.25%	-1.61%	-0.8
Exports	0.52%	1.04%	-0.18%	0.15%	0.05%	0.51%	0.56%	0.38%	0.92%	0.64%	0.48%	1.4
Imports	-0.39%	-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	2.45%	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 past two months we have wondered how the BEA's latest growth estimates might impact the Federal Reserve
policy -- and particularly the duration and size of QE. At face value the new headline growth rate of 4.12% qualifies
growth," and places the US among the fastest growing developed countries. In fact, a growth rate above 4% would a
modest $10 billion per month taper -- if not a return to more historically normal interest rates.

Then why such a modest monetary response?

The Federal Reserve clearly understands that the headline 4.12% is neither real nor sustainable**:**

-- The vast majority of the economy (consumer spending -- nearly 70% of GDP) was growing at a paltry 1.35%.

-- Over 40% of the headline number came from growing inventories. Conventional wisdom has this component reve
-- reverting to a long term net zero gain or loss. In fact, since 2006 the average annualized real contribution from inv
zero (-0.02%). Bloated inventories have a tendency to normalize, and in coming quarters we can expect production c

-- Employment numbers, while technically improving, are still weak by historic "full employment" standards. And it
the modest improvement in the unemployment numbers is an artifact of a major deformation of the work force -- wit
look for work and more being forced to accept multiple part time jobs.

-- Real per capita disposable income is still down -0.85% year-to-date. And if households continue to normalize thei
few quarters (just as they have over the past two quarters while attempting to move back towards the savings level "
the January FICA increase), those increased savings will have to come from reduced spending.

-- The aggregate numbers continue to mask an ongoing shift in income distribution**:** although the **average** per capita
some 3.3% since October 2008 (per the BEA), the **median** household income has shrunk some 7% over that same tir
Research). Thus whatever growth the BEA is reporting is not likely to shared by the vast majority of the electorate.

Arguably, the "healthy economic growth" implied in the 4.12% headline growth rate might be considered a tad delus
Federal Reserve knows that only too well.