

December 23, 2011

Consumer Spending Suggests an Acceleration of GDP Growth

Stephen P. A. Brown

Yesterday's downward revision of third quarter U.S. real Gross Domestic Product (GDP) may have people thinking that the economy is not improving rapidly. Economic data released today, however, suggest a somewhat better picture. The data show consumer spending accelerating in October and November, which is consistent with fourth quarter 2011 showing stronger gains in real GDP than were seen in the previous three quarters.

On December 22, the U.S. Bureau of Economic Analysis (BEA) issued its third estimate of U.S. real GDP for third quarter 2011. The estimate showed a downward revision in the growth rate of real GDP from BEA's second estimate, which was released on November 22, 2011 (Table 1). Except for government purchases, every major expenditure category was revised. Most notable among the revisions were a substantial reduction in estimated consumer spending, higher estimates of exports and imports (with the latter making a negative contribution to GDP growth), and a lower estimate of the drawdown in inventories.

Table 1. Contributions to the Growth of U.S. Real GDP

	2010 Q4	2011 Q1	2011 Q2	2011 Q3	
				2 nd Estimate	3 rd Estimate
Real GDP (percent change annual rate)	2.3	0.4	1.3	2.0	1.8
Contributions to Real GDP Growth					
Final Domestic Sales	2.78	0.38	1.38	3.06	2.74
Consumption	2.48	1.47	0.49	1.63	1.24
Business Fixed Investment	0.82	0.20	0.98	1.41	1.49
Residential Investment	0.06	-0.06	0.09	0.04	0.03
Government Purchases	-0.58	-1.23	-0.18	-0.02	-0.02
Net Exports	1.37	-0.34	0.24	0.49	0.43
Exports	0.98	1.01	0.48	0.59	0.64
Imports	0.39	-1.35	-0.24	-0.09	-0.21
Inventory Investment	-1.79	0.32	-0.28	-1.55	-1.35

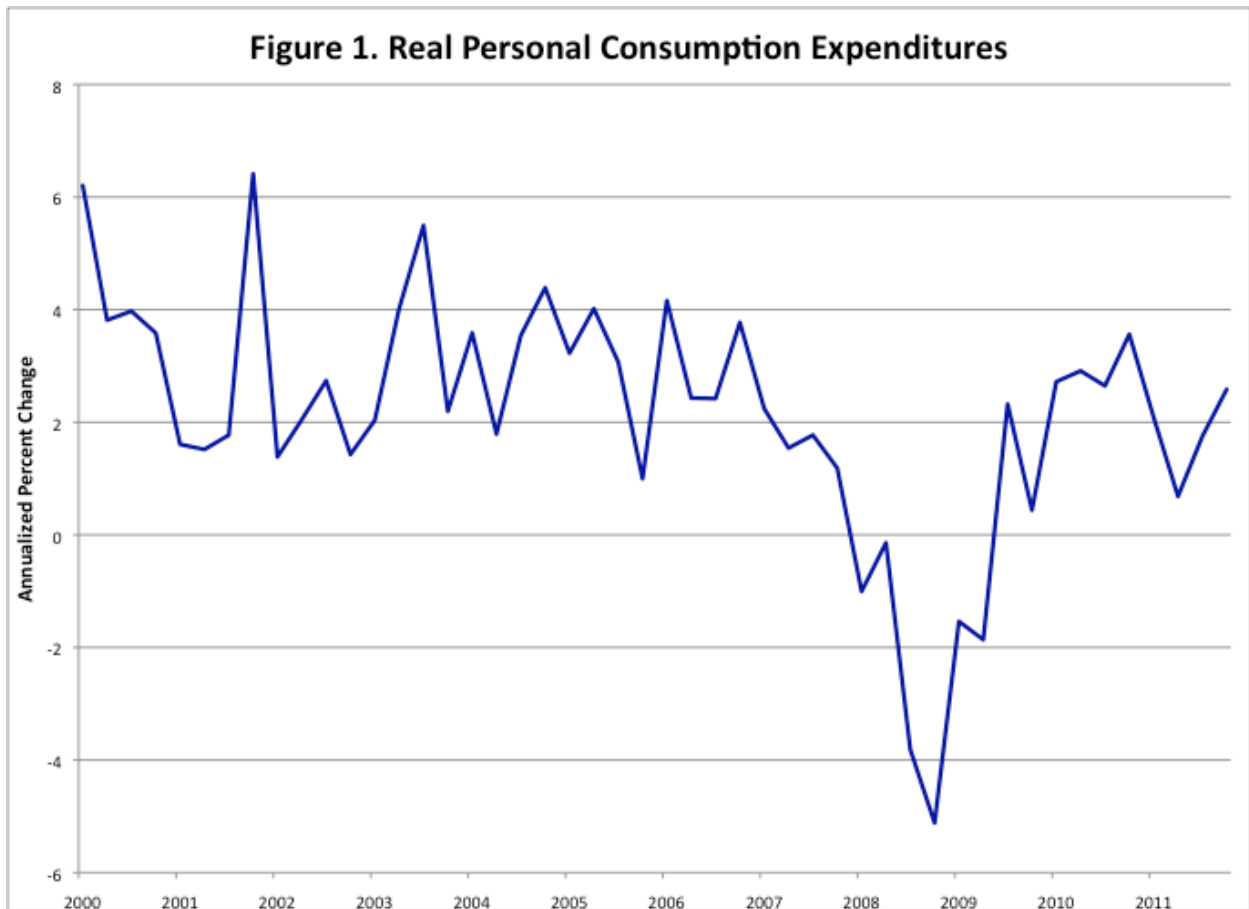
Source: U.S. Bureau of Economic Analysis

The second estimate of third quarter GDP had provided an impression of a strong surge in consumer spending that had substantially reduced inventories. Many analysts anticipated that consumers would continue spending and that firms would need to produce more to rebuild their depleted inventories. Consequently, the downward revisions to consumer spending and the

inventory drawdown may give rise to concerns that the economy is not developing as much momentum as was previously thought.

Such concerns may be misplaced. The monthly personal consumption data for November 2011 were released today, and combined with October data, they show that consumer spending has likely accelerated in fourth quarter 2011. The monthly consumer-spending data provide good forecasts of the consumer-spending component of GDP. The final estimates of both consumption series have the same quarterly values.

Assuming consumer spending grows at the same monthly rate in December as was the average for October and November, real consumer spending has accelerated from a 1.75 percent annualized growth rate in third quarter to a 2.58 percent annualized growth rate in fourth quarter (Figure 1). This projection represents a substantial acceleration of consumer spending over the first three quarters of 2011. Because consumer spending accounts for about 70 percent of total GDP, the acceleration in real consumer spending suggests that real U.S. GDP is likely to show much stronger gains in fourth quarter 2011 than it did earlier in the year.



Sources: U.S. Bureau of Economic Analysis; CBER

Stephen P. A. Brown, Ph.D.
Director, Center for Business and Economic Research
University of Nevada, Las Vegas