



A Quick Look at Preliminary 2012Q1 GDP

Real GDP expanded at a 2.2 percent annualized rate in the first quarter of 2012 according to preliminary estimates from the Commerce Department. This was a lower growth rate than in the fourth quarter of 2011 (3.0 percent) and a lower rate than our forecast (2.7 percent) or the consensus forecast of economists (2.5 percent). However, the news was not all bad.

Importantly, real consumer spending – which still accounts for 70 percent of GDP – rose at a 2.9 percent rate, the fastest growth rate since the fourth quarter of 2010. The increase in consumer spending came from two sources: a modest rise in disposable personal income and a decrease in the level of savings. In annualized nominal terms, consumer spending rose by \$143 billion, of which \$78 billion came from a rise in disposable income and \$65 billion came from a decrease in savings. Compared to one year ago, nominal consumer spending is up \$443 billion, with \$113 billion of that coming from a decrease in savings. In real terms, consumer spending rose 1.9 percent vs. 2011Q1, about equal to the 2.1 percent increase in real GDP over the same period.

Real investment spending also grew in 2012Q1 (6.0 percent annualized rate) although this is far below the 22 percent increase in the fourth quarter of 2011. A good portion of the fourth quarter increase was due to a build-up of inventories and it is no surprise that investment spending would slow from that pace.

Real exports grew at a faster pace than real imports (5.4 percent vs. 4.3 percent) in the first quarter. However, since imports exceed exports the net impact on GDP growth was basically zero.

Preliminary 2012Q1 Real GDP and its Components

| | 2012Q1 vs. 2011Q4 (annualized) | 2012Q1 vs. 2011Q1 |
|-----------------------|-----------------------------------|-------------------|
| GDP | +2.2% | +2.1% |
| Consumer Spending | +2.9% | +1.9% |
| Business Investment | +6.0% | +8.7% |
| Excluding inventories | +1.4% | +7.4% |
| Exports | +5.4% | +4.1% |
| Imports | +4.3% | +2.6% |
| Government Purchases | -3.0% | -2.1% |

Source: U.S. Department of Commerce, Bureau of Economic Analysis

What was the big drag on GDP in the first quarter? Government purchases, or to be more precise, the 3.0 percent decline in government purchases which by itself took 0.6 percent off of the growth rate of GDP. State and local governments have been cutting back for some time and federal defense expenditures have been falling for the six months due to the ending of operations in Iraq. Note that this measure of government spending does not include the much larger portion of spending known as transfer payments (Social Security, Medicare, unemployment insurance and other income support) which show up as personal consumption expenditures by households.



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Nonetheless, it is worth noting that government transfer payments have declined in real terms over the past year due mostly to a reduction in unemployment benefits. As a result, real disposable income excluding transfer payments has grown faster than total real disposable income (1.7 percent vs. 0.6 percent), a positive sign because government income support will continue to decline as the economy gradually recovers.