Trend Macro

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TRENDMACRO LIVE!

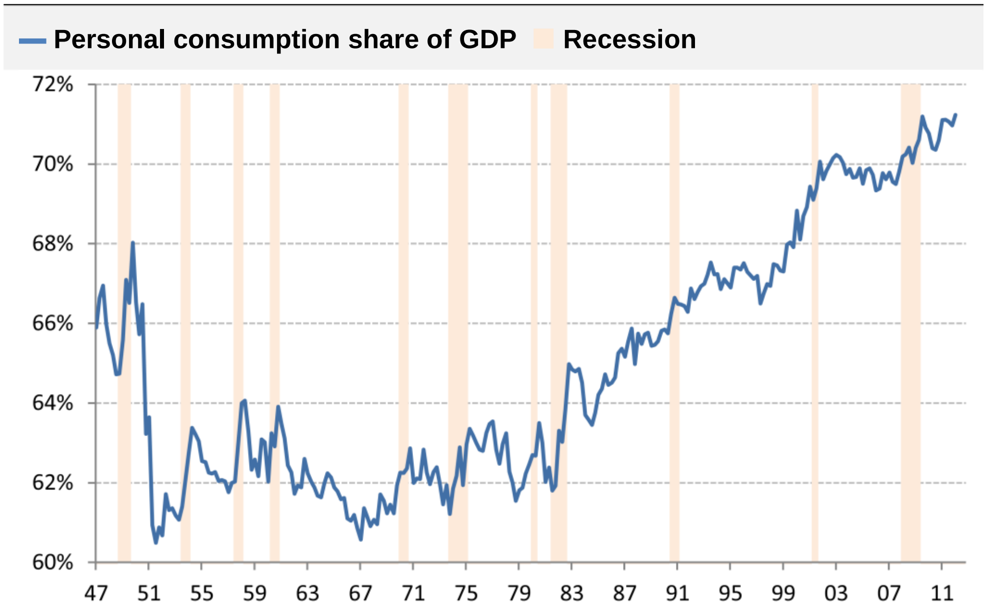
On Q1 2012 GDP

Friday, April 27, 2012
Donald Luskin

The consumer is alive and well -- everyone has been focusing on the wrong "new normal."

This morning's GDP data for the first quarter of 2012 was a slight disappointment versus consensus expectations, but it contained one big upside surprise -- personal consumption expenditures. They were up 2.9% on an annual basis, versus a consensus of 2.3%. They contributed 2.04% of the 2.20% total real growth in the quarter.

- This puts the share of consumption in GDP at 71.24%, a new all-time historic high (please see the chart below).



Source: BEA, NBER, TrendMacro calculations

- We find this especially interesting because it utterly flies in the face of the conventional wisdom of the "new normal" -- a post-bubble world in which the over-indebted consumer must deleverage, will be unable to make his historic contribution to growth, and will decline as a share of overall output (among our many critiques of it, see "Still Waiting for that 'New Era'" July 31, 2009 and "The Consumer: QED" April 16, 2010).

Update to strategic view

US MACRO: Another unsurprising quarter of slow growth in our muddle-through post-crisis expansion. The consumer was the star, with no help from transfer payments, and government was a negative -- hopefully this drives a stake through the "new normal" and "fiscal drag" theories once and for all. The real problem is the lack of recovery in fixed investment, without which we won't be able to sustain a true expansion.

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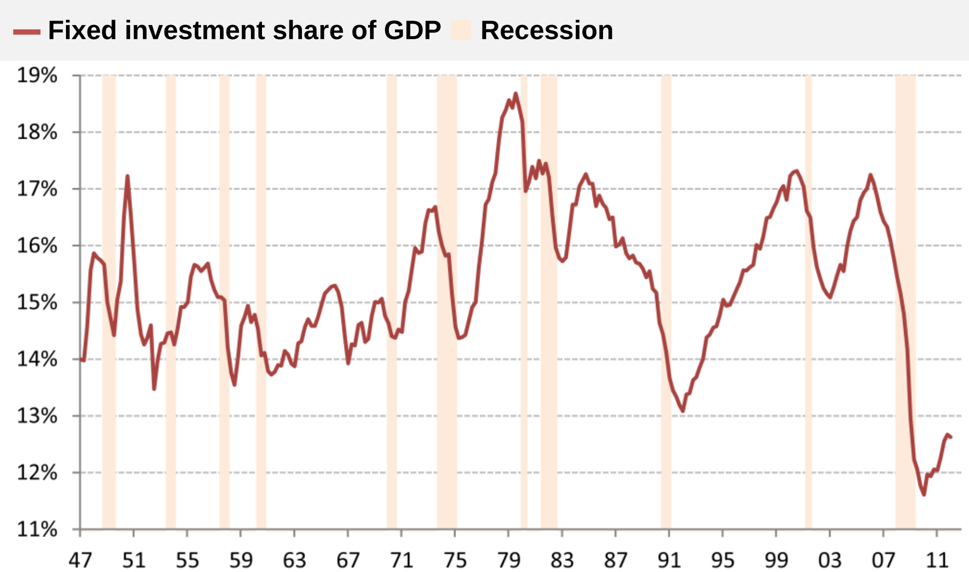
- It was supported by a 2.79% annual gain in disposable personal income. This was explained mostly by a 2.46% annual gain in wage income.
- This morning's data puts a dent in another popular theory -- that the "fiscal drag" of slower government spending will, via a Keynesian multiplier, slow personal incomes and personal consumption. Government spending subtracted 0.60% from overall real growth in the first quarter. And transfer payments subtracted 0.12% from disposable personal income. Yet consumer incomes and consumer spending were just fine, thank you.
- For us, the real driver of growth -- or the *lack* of growth -- is fixed investment -- or the *lack* of fixed investment. We believe that growth can only come from risk-taking on new plant and equipment that will make the economy more productive. There is too little of that now to sustain a true recovery. In the first quarter, fixed investment contributed only 0.18% to the 2.20% overall growth.
- With now only a 12.6% share of output, fixed investment isn't quite at the all-time low it hit in the Great Recession -- but it's shown disturbingly little progress, even as overall output has recovered to new all-time highs (please see the chart below). *This* -- not the consumer -- is, sadly, the true "new normal."



Source: BEA, NBER, TrendMacro calculations

Bottom line

Another unsurprising quarter of slow growth in our muddle-through post-crisis expansion. The consumer was the star, with no help from transfer payments, and government was a negative -- hopefully this drives a stake through the "new normal" and "fiscal drag" theories once and for all. The real problem is the lack of recovery in fixed investment, without which we won't be able to sustain a true expansion.

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