Consumer Metrics Institute News

January 30, 2014: BEA Estimates 4th Quarter 2013 GDP Growth at 3.22% Annual Rate, Down Modestly from 3rd Quarter

(Web page version is here)

In their first estimate of the US GDP for the fourth quarter of 2013, the Bureau of Economic Analysis (BEA) reporte
3.22% annualized rate, down .9% from the 4.12% growth rate during the third quarter. The weakening in the headlin
from commercial fixed investments (which pulled the headline down by -0.75%), slowing inventory growth (removi
spending (with the "shutdown" slicing an additional -1.01% from the headline). Positive contributions came from co
headline) and foreign trade (boosting it another 1.20%). The BEA's own "bottom line" growth rate for the economy (
product") strengthened to a 2.80% annualized growth rate, principally as a result of the slowing expansion in invento

Real annualized per capita disposable income was reported to have been flat during the fourth quarter, and household
rate to 4.3% (from 4.9% in the prior quarter). That savings rate had previously been recovering from a 2.5% hit durin
struggled to absorb the 2% increase in FICA tax rates -- but most of that recovery in savings rates has now been give
with stagnating incomes.

Finally, for this report the BEA assumed annualized net aggregate inflation of 1.30%. During the fourth quarter (i.e.,
seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (BLS) was lower at 1.09% (annualized)
reported by the Billion Prices Project (BPP) was higher at an annualized rate of about 1.6%. If the CPI-U had been us
numbers into "real" numbers, the reported headline growth rate would have been a somewhat higher 3.47%, but usin
reflects the experiences of the American consumer) would have generated a lower 2.96% annualized growth rate.

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

-- The contribution of consumer expenditures for goods to the headline number increased to 1.12% (up slightly from

-- The contribution made by consumer services improved to 1.14% (up significantly from the 0.32% contribution in t

-- The growth rate contribution from private fixed investments dropped to 0.14% (down substantially from the 0.89%

-- Inventories continued to grow, but at a much slower pace -- contributing only 0.42% to the headline growth rate (d

-- The "shutdown" caused a net contraction in governmental expenditures, subtracting -0.93% from the headline num
occurred at the Federal level, state and local spending was essentially flat.

-- Exports contributed 1.48% to the overall growth rate, up nearly a full percent from the 0.52% in the prior quarter.

-- And imports now subtracted a mere -0.15% from the headline number (compared to -0.39% during the prior quarte

-- The annualized growth rate for the "real final sales of domestic product" increased to 2.80% (up from the 2.45% in
BEA's "bottom line" measurement of the economy -- which remains somewhat weaker than the headline number bec
buildup of inventories.

-- And as mentioned above, real per-capita disposable income was utterly flat from quarter to quarter. And that numb
to the fourth quarter of 2012 (before the FICA rates normalized).

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 + (expo

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 follows:

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M
Annual $ (trillions)	$17.1	=	$11.7	+	$2.8	+	$3.1	+	$-0.
% of GDP	100.0%	=	68.1%	+	16.2%	+	18.2%	+	-2.6
Contribution to GDP Growth %	3.22%	=	2.26%	+	0.56%	+	-0.93%	+	1.33

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc breaks out the component contributions in more detail and over time. In the table below we have split the "C" compo "I" component into fixed investment and inventories, separated exports from imports, added a line for the BEA's "Re and listed the quarters in columns with the most current to the left:

Quarterly Changes in % Contributions to GDP

	4Q-2013	3Q-2013	2Q-2013	1Q-2013	4Q-2012	3Q-2012	2Q-2012	1Q-2012	4Q-2011	3Q-2011	2Q-2011	1Q-2
Total GDP Growth	3.22%	4.12%	2.48%	1.14%	0.14%	2.78%	1.20%	3.71%	4.86%	1.37%	3.19%	-1.2
Consumer Goods	1.12%	1.03%	0.71%	0.85%	0.85%	0.84%	0.50%	1.04%	1.14%	0.29%	0.05%	0.6

Consumer Services	1.14%	0.32%	0.53%	0.69%	0.29%	0.31%	0.78%	0.94%	0.51%	1.14%	0.98%	0.8
Fixed Investment	0.14%	0.89%	0.96%	-0.23%	1.63%	0.39%	0.68%	1.21%	1.39%	1.96%	1.16%	-0.0
Inventories	0.42%	1.67%	0.41%	0.93%	-2.00%	0.60%	-0.91%	0.36%	2.73%	-1.60%	0.72%	-1.0
Government	-0.93%	0.08%	-0.07%	-0.82%	-1.31%	0.67%	0.05%	-0.28%	-0.31%	-0.52%	-0.25%	-1.6
Exports	1.48%	0.52%	1.04%	-0.18%	0.15%	0.05%	0.51%	0.56%	0.38%	0.92%	0.64%	0.4
Imports	-0.15%	-0.39%	-1.10%	-0.10%	0.53%	-0.08%	-0.41%	-0.12%	-0.98%	-0.82%	-0.11%	-0.4
Real Final Sales	2.80%	2.45%	2.07%	0.21%	2.14%	2.18%	2.11%	3.35%	2.13%	2.97%	2.47%	-0.2

Summary and Commentary

For the past quarter we have been examining how the surprisingly robust BEA growth estimates have been impacting
Reserve's QE program. Yesterday's Fed news had already told us what to expect from this announcement. At face val
3% (and a prior quarter number north of 4%) qualifies as "healthy economic growth," and continues to place the US a
countries. And absent the "shutdown" we could have had a second consecutive quarter above 4%. The growth rates c
tapering. And in fact these kinds of growth rates might argue for a return to more historically normal interest rates.

Given this healthy economic growth, the US electorate should be thrilled -- happy to be part of one of the fastest grov

Yet they are clearly less than thrilled with the economy, let alone the administration or their representatives in Congr
income stagnant and still below where it was in 2012, the electorate's view of the economy differs substantially from

Unlike their elected representatives, they have to deal with the "real world" problems of making ends meet while jug
is likely that they have a deep and abiding sense that either these numbers are a bureaucratic fiction, or (more troublin

-- The headline unemployment numbers mask a major deformation of the work force -- with fewer people choosing t
forced to accept multiple part time jobs. People on the street understand the difference between an increasing quantity
full-time jobs.

-- Real per capita disposable income was down -0.85% during 2013. And to maintain the prior year's standard of livi
plunged 2.3%.

-- For many households (and especially the 18-35 demographic) the Affordable Care Act (aka "ObamaCare") will res
for health insurance.

-- The per capita numbers continue to mask an ongoing shift in income distribution**:** although the **average** per capita
since October 2008 (per the BEA), the **median** household income has shrunk some 7% over that same time span (per
member of the electorate lives at the median, and they are not sharing the growth reported by the BEA.

On the surface these were nice numbers, enough to satisfy the Federal Reserve that more of the same lies ahead. Unfo
probably prefer something far better than an extension of that "same."