Consumer Metrics Institute News

February 28, 2014: BEA Revises 4th Quarter 2013 GDP Growth Down to 2.37% Annual Rate

(Web page version is here)

In their second estimate of the US GDP for the fourth quarter of 2013, the Bureau of Economic Analysis (BEA) repo
a 2.37% annualized rate, down -.85% from the 3.22% growth rate previously reported and down sharply (-1.75%) fro
quarter. The weakening in the headline growth was broadly evident in the details, with consumer spending on goods
decrease (-.40%), and lower growth rates seen in inventories (-.28%), consumer services (-.14%), governmental spen
imports (-.09%). The only major positive contribution came from fixed investment (which added an additional +.44%
own "bottom line" growth rate for the economy (the "real final sales of domestic product") weakened by over a half p
rate, principally as a result of a significant slowing in the expansion in inventories.

Real annualized per capita disposable income was now reported to be shrinking during the fourth quarter, and the hou
upward slightly to 4.5% (although that is still down from 4.9% in the prior quarter). That savings rate has been recove
quarter as households struggled to absorb the 2% increase in FICA tax rates -- but most of that recovery in savings ra
households continue to deal with contracting disposable incomes.

Finally, for this report the BEA assumed annualized net aggregate inflation of 1.62%. 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)
the Billion Prices Project (BPP -- which arguably best reflects the experiences of the American consumer) was essent
report.

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

-- The contribution of consumer expenditures for goods to the headline number decreased materially to 0.72% (down
1.03% contribution in the prior quarter).

-- The contribution made by consumer services weakened to 1.00% (down from the 1.14% previously reported).

-- The growth rate contribution from private fixed investments increased sharply to 0.58% (but it is still down from th

-- Inventories continued to grow, but at a marginal pace -- contributing only 0.14% to the headline growth rate (down

-- The "shutdown" caused a net contraction in governmental expenditures, subtracting -1.05% from the headline num
occurred at the Federal level, state and local infrastructure investment was now reported to be contracting slightly.

-- Exports contributed 1.22% to the overall growth rate, down -0.26% from the previous report.

-- And imports now subtracted -0.24% from the headline number (compared to -0.15% previously reported).

-- The annualized growth rate for the "real final sales of domestic product" decreased to 2.23% (down from the 2.45%
BEA's "bottom line" measurement of the economy -- which remains somewhat weaker than the headline number bec
slower) buildup of inventories.

-- And as mentioned above, real per-capita annual disposable income is now reported to have contracted very slightly

But that number is down a much more material $324 per year (roughly 1%) from the fourth quarter of 2012 (before t

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The Numbers, As Revised

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	=	$11.6	+	$2.8	+	$3.1	+	$-0.
% of GDP	100.0%	=	68.2%	+	16.3%	+	18.2%	+	-2.7
Contribution to GDP Growth %	2.37%	=	1.72%	+	0.72%	+	-1.05%	+	0.98

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-
Total GDP Growth	2.37%	4.12%	2.48%	1.14%	0.14%	2.78%	1.20%	3.71%	4.86%	1.37%	3.19%	-1.2
	0.72%	1.03%	0.71%	0.85%	0.85%	0.84%	0.50%	1.04%	1.14%	0.29%	0.05%	0.6

Consumer Goods												
Consumer Services	1.00%	0.32%	0.53%	0.69%	0.29%	0.31%	0.78%	0.94%	0.51%	1.14%	0.98%	0.8
Fixed Investment	0.58%	0.89%	0.96%	-0.23%	1.63%	0.39%	0.68%	1.21%	1.39%	1.96%	1.16%	-0.0
Inventories	0.14%	1.67%	0.41%	0.93%	-2.00%	0.60%	-0.91%	0.36%	2.73%	-1.60%	0.72%	-1.0
Government	-1.05%	0.08%	-0.07%	-0.82%	-1.31%	0.67%	0.05%	-0.28%	-0.31%	-0.52%	-0.25%	-1.6
Exports	1.22%	0.52%	1.04%	-0.18%	0.15%	0.05%	0.51%	0.56%	0.38%	0.92%	0.64%	0.4
Imports	-0.24%	-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	2.23%	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

At face value this report shows economic growth that was weakening quarter-to-quarter in the fourth quarter of 2013 report (from a "first estimate" that the BEA freely admits is always something of an educated guess) were broadly ba firmer numbers have been consistently surprising the BEA to the downside.

The BEA has a history of substantial "real-time" misses at the commencement of a downturn in the economy -- alwa reading of a rapidly deteriorating situation. This also tells us something about their methodologies -- which to some c about actual timely measurements of the economy and more about modeled projections of what they think the econo is some months old.

In this context it is useful to recall the BEA's historic track record on reporting the growth rate for the first full quarte Recession" that the National Bureau of Economic Research (NBER) says commenced in December 2007. In their sec the **first quarter of 2008** -- the first full quarter of the NBER's recession -- the BEA reported roughly six years ago t

"Real gross domestic product -- the output of goods and services produced by labor and property located in the Unit rate of 0.9 percent in the first quarter of 2008, according to preliminary estimates released by the Bureau of Econom real GDP increased 0.6 percent."

In other words, the BEA was reporting then (May 2008) that the economy had **improved** relative to the prior quarter was even better than the prior estimate for 1Q-2008 published a month earlier, which at +0.6% was flat when compar month they would report a yet even better headline number (+1.0% annualized GDP growth rate). When we put the E table showing how they changed over time it looks something like this**:**

BEA's Changing View of First Quarter 2008 GDP

Reported Growth Rate	Report Date	Months Lag
+0.6%	April 30, 2008	1

+0.9%	May 29, 2008	2
+1.0%	June 26, 2008	3
+0.9%	July 31, 2008	4
-0.7%	July 31, 2009	16
-0.7%	July 30, 2010	28
-1.8%	July 29, 2011	40
-2.7%	July 31, 2013	64

If anyone missed the key point**:** in the table above all of the BEA's reported growth rates are for the **same quarter**, th
quarter of the last recession. The only difference is the lag time between the close of the quarter and the BEA's report
the revisions somehow escaped you, *they missed the annualized growth rate in "real-time" by a staggeringly optimist*

Given the BEA's "real-time" track record, it is possible that the US economy is currently in a state of flux -- with the
both more pervasive and dynamic than the BEA currently understands. Unfortunately if that is true, the official GDP
places to watch a downside event unfold.
