Consumer Metrics Institute News

March 27, 2014: BEA Revises 4th Quarter 2013 GDP Growth Up Slightly To A 2.64% Annual Rate

(Web page version is here)

In their third estimate of the US GDP for the fourth quarter of 2013, the Bureau of Economic Analysis (BEA) reporte
2.64% annualized rate, up .27% from the 2.37% growth rate previously reported -- but still down sharply (-1.53%) fr
quarter. The improvement in the headline growth came almost entirely from the BEA's reassessment of consumer spe
the headline number, mostly from increased spending on health care). Offsetting that increase were downward adjust
goods (-.06%), the growth rate for inventories (which lost -.16% and is now reported to be in slight contraction) and f
adjustments were made to exports and imports. As a consequence of the consumer services revision and the slight inv
"bottom line" growth rate for the economy (the "real final sales of domestic product") strengthened by nearly a half p
rate.

Real annualized per-capita disposable income is now reported to have been essentially flat during the fourth quarter (
and the household savings rate was adjusted back downward to 4.3% (down -.6% from the 4.9% in the prior quarter a
the fourth quarter of 2012). That savings rate has been effectively absorbing the January 2013 2% increase in FICA ta
sustain spending even as take-home pay took a haircut.

Finally, for this report the BEA assumed annualized net aggregate inflation of 1.56%. During the fourth quarter (i.e.,
growth rate of the seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (BLS) was slightly lo
while the price index reported by the Billion Prices Project (BPP -- which arguably best reflects the experiences of th
substantially higher at 2.46%. Under reported inflation will result in overly optimistic growth data, and if the BEA's r
using the BPP inflation rate the fourth quarter's growth rate would have only been 1.78%.

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

-- The contribution of consumer expenditures for goods to the headline number decreased slightly to 0.66% (down -0
1.03% contribution in the prior quarter).

-- The contribution made by consumer services spending increased to 1.57% (up from the 1.00% previously reported
spending was in health care.

-- The growth rate contribution from private fixed investments decreased to 0.43% (less than half of the 0.89% report

-- Notably inventories are now reported to be contracting at a marginal pace -- subtracting -0.02% from the headline g
prior quarter). The prior three quarters had seen substantial inventory growth that had boosted the reported annualized

-- The Federal government "shutdown" is still in the "current" reporting quarter (i.e., 4Q-2013), and it removed -0.99

-- Exports contributed 1.23% to the overall growth rate, essentially unchanged (up 0.01%) from the previous report. E
growth since the fourth quarter of 2010.

-- Imports subtracted -0.24% from the headline number (unchanged from the previous report).

-- The annualized growth rate for the "real final sales of domestic product" increased to 2.66% (up from the 2.45% in "bottom line" measurement of the economy -- and it is now slightly stronger than the headline number because of the

-- And as mentioned above, real per-capita annual disposable income is now reported to have grown by a minuscule a increasing a miserable $1 per year. But that number is down a material -$316 per year (roughly 1%) from the fourth q rates normalized) and it is up less than 1% in total ($270 per year) since the second quarter of 2008 -- some 22 quarte

---

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	=	$11.7	+	$2.8	+	$3.1	+	$-0.
% of GDP	100.0%	=	68.2%	+	16.2%	+	18.3%	+	-2.7
Contribution to GDP Growth %	2.64%	=	2.23%	+	0.41%	+	-0.99%	+	0.99

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best und 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	2.64%	4.12%	2.48%	1.14%	0.14%	2.78%	1.20%	3.71%	4.86%	1.37%	3.19%	-1.2
Consumer Goods	0.66%	1.03%	0.71%	0.85%	0.85%	0.84%	0.50%	1.04%	1.14%	0.29%	0.05%	0.6
Consumer Services	1.57%	0.32%	0.53%	0.69%	0.29%	0.31%	0.78%	0.94%	0.51%	1.14%	0.98%	0.8
Fixed Investment	0.43%	0.89%	0.96%	-0.23%	1.63%	0.39%	0.68%	1.21%	1.39%	1.96%	1.16%	-0.0
Inventories	-0.02%	1.67%	0.41%	0.93%	-2.00%	0.60%	-0.91%	0.36%	2.73%	-1.60%	0.72%	-1.0
Government	-0.99%	0.08%	-0.07%	-0.82%	-1.31%	0.67%	0.05%	-0.28%	-0.31%	-0.52%	-0.25%	-1.6
Exports	1.23%	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	2.66%	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

There are a few of notable take-aways from this report, especially when looking ahead to the first quarter of 2014**:**

-- The year-long cycle of inventory building has apparently come to an end. Dating back to the first quarter of 2006, t
growth rate of inventories has been a relatively neutral +0.04%. This is not surprising because over an extended time
cyclical zero-sum game, with excessive growth or contraction in any one period being corrected during subsequent p
expect that inventories will continue their cyclical transition from building to contraction, with negative consequence

-- The Federal government's "shutdown" subtracted roughly 1% from the fourth quarter's reported growth rate. If Fed
prior quarter's level, we might expect a roughly 1% boost to the headline number. On the other hand, if the Federal b
from sequestered spending that was merely pushed into the first quarter, we could see yet another quarter's report dis
with the first quarter shoved firmly to the upside.

-- The headline growth contribution from commercial fixed investment dropped over 2% from quarter to quarter, and
on equipment (healthcare and transportation) -- with spending on structures actually contracting slightly. Residential
significant contraction after 12 consecutive quarters of growth.

-- Although the growth contribution from imports is at about the long term average, exports are currently growing at
Sustained long term growth in exports requires healthy and growing trading partners. Given softening growth in a nu
historically high growth rate for exports may not be sustainable.

-- Household income shows no signs of recovery. Real per-capita income remains stagnant quarter to quarter, and do
bears repeating that total real per-capita income growth since the second quarter of 2008 has been 0.73% -- an averag
0.13% during the entire "recovery." The household savings rate is down over 2.3% year over year, and it remains we

savings rate.

-- Ominously, the just reported upside revision to "growth" in consumer spending was caused by an increased real co
the fourth quarter of 2013 the ObamaCare launch was just sputtering, at best. We should expect consumer spending c
first quarter of 2014, largely as a result of non-discretionary healthcare expenses. But given stagnant household incon
spending for new coverage through health care exchanges has got to come from somewhere -- with both household d
taking it on the chin as net spending further transfers to the healthcare industries.

The next GDP report (the first estimate for the first quarter of 2014) will certainly be interesting. It might well be dist
spending, and it could reflect ongoing softening of commercial spending for inventories and fixed investments. It wil
the new healthcare initiatives on household spending and the overall structure of the economy.