Consumer Metrics Institute News

April 30, 2014: BEA Estimates 1st Quarter 2014 GDP Growth Collapsed To A Mere 0.11% Annual Rate

(Web page version is here)

In their first estimate of the US GDP for the first quarter of 2014, the Bureau of Economic Analysis (BEA) reported t
economy was growing at an anemic 0.11% annualized rate. When compared to prior quarters, the new measurement
2.5% from the 2.64% growth rate reported for the 4th quarter of 2013, and it is now more than 4% lower than the 4.1
the 3rd quarter of 2013 -- indicating that the deceleration in the growth rate first noticed last quarter has both continu
intensified.

Commercial activity was especially hard hit: exports led the collapse, and commercial investments and inventories al
significantly. Fixed investments in both equipment and residential construction contracted sharply. Government spen
contracted, primarily in Federal defense spending and state and local governmental infrastructure investment.

Consumer spending for services provided the only significant growth, with outlays for non-discretionary healthcare,
utilities and financial services all increasing. Spending on consumer goods was essentially flat even though househol
dropped once again.

Real annualized per-capita disposable income grew by $112 during the first quarter (although it is still $204 per year
was during the fourth quarter of 2012), while the household savings rate shrank again to 4.1% (down -0.8% from the
prior quarter and down -2.5% from the fourth quarter of 2012). The reduced savings rate was an budgetary necessity
spending on non-discretionary services (including healthcare) increased substantially faster than disposable income.

And lastly, for this report the BEA assumed annualized net aggregate inflation of 1.30%. During the first quarter (i.e.
through March) the growth rate of the seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (
half percent higher at a 1.80% (annualized) rate, and the price index reported by the Billion Prices Project (BPP -- wh
reflected the real experiences of American households while recording sharply increasing consumer prices during the
was over two and a half percent higher at 3.91%. Under reported inflation will result in overly optimistic growth data
BEA's numbers were corrected for inflation using the BLS CPI-U the economy would be reported to be contracting a
annualized rate. And if we were to use the BPP data to adjust for inflation the first quarter's contraction rate would ha
staggering -2.50%.

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

-- The contribution of consumer expenditures for goods to the headline number decreased to an essentially flat 0.08%
substantial -0.58% from the 0.66% contribution in the prior quarter).

-- The contribution made by consumer services spending increased sharply to 1.96% (up 0.39% from the 1.57% in th
The increased spending was primarily for non-discretionary healthcare, housing, utilities and financial services.

-- Commercial private fixed investments contracted, reducing the headline number by -0.44% (after having adding 0.
prior quarter). The contraction was led by reduced outlays for IT equipment, transportation equipment and residential

-- Inventories are now reported to be contracting sharply -- subtracting -0.57% from the headline growth rate (down -
prior quarter). The first three three quarters of 2013 had seen substantial inventory growth that had boosted the report

growth rate by an average of 1%. We might expect a corresponding multi-quarter contraction to "normalize" inventor

-- Reduced governmental spending removed an aggregate -0.09% from the headline number. The Federal governmen
now in the prior reporting quarter (i.e., 4Q-2013), and a modest bounce-back in Federal non-defense spending added
headline number that was more than offset by contracting defense spending and shrinking state and local infrastructu

-- Exports swung dramatically from adding 1.23% to the overall growth rate in 4Q-2013 to subtracting -1.07% from t
number in the new report (a swing of -2.30%). Export growth had been one of the bright spots of 2013 -- even as the
many of our trading partners softened. That source of growth appears to have abruptly ended.

-- Weakening demand for imports actually added 0.24% from the headline number (after subtracting -0.24% in the pr
representing nearly a full half percent improvement). However, weakening demand for imports is not necessarily a go
omen.

-- The annualized growth rate for the "real final sales of domestic product" dropped sharply to 0.68% (down nearly 2
2.66% in the prior quarter). This is the BEA's "bottom line" measurement of the economy -- and it remains stronger t
headline number because of the contraction in inventories.

-- And as mentioned above, real per-capita annual disposable income grew by $112 during the quarter (a 1.22% annu
But that number is still down a material -$204 per year from the fourth quarter of 2012 (before the FICA rates norma
up only about 1% in total ($382 per year) since the second quarter of 2008 -- some 23 quarters ago.

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 + (exports - impor

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
growth number) are as follows **:**

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M)
Annual $ (trillions)	$17.1	=	$11.8	+	$2.7	+	$3.1	+	$-0.5

% of GDP	100.0%	=	68.8%	+	16.0%	+	18.2%	+	-2.9%
Contribution to GDP Growth %	0.11%	=	2.04%	+	-1.01%	+	-0.09%	+	-0.83%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc the table below, which breaks out the component contributions in more detail and over time. In the table below we ha component into goods and services, split the "I" component into fixed investment and inventories, separated exports a added a line for the BEA's "Real Final Sales of Domestic Product" and listed the quarters in columns with the most c left **:**

Quarterly Changes in % Contributions to GDP

	1Q-2014	4Q-2013	3Q-2013	2Q-2013	1Q-2013	4Q-2012	3Q-2012	2Q-2012	1Q-2012	4Q-2011	3Q-2011
Total GDP Growth	0.11%	2.64%	4.12%	2.48%	1.14%	0.14%	2.78%	1.20%	3.71%	4.86%	1.37%
Consumer Goods	0.08%	0.66%	1.03%	0.71%	0.85%	0.85%	0.84%	0.50%	1.04%	1.14%	0.29%
Consumer Services	1.96%	1.57%	0.32%	0.53%	0.69%	0.29%	0.31%	0.78%	0.94%	0.51%	1.14%
Fixed Investment	-0.44%	0.43%	0.89%	0.96%	-0.23%	1.63%	0.39%	0.68%	1.21%	1.39%	1.96%
Inventories	-0.57%	-0.02%	1.67%	0.41%	0.93%	-2.00%	0.60%	-0.91%	0.36%	2.73%	-1.60%
Government	-0.09%	-0.99%	0.08%	-0.07%	-0.82%	-1.31%	0.67%	0.05%	-0.28%	-0.31%	-0.52%
Exports	-1.07%	1.23%	0.52%	1.04%	-0.18%	0.15%	0.05%	0.51%	0.56%	0.38%	0.92%
Imports	0.24%	-0.24%	-0.39%	-1.10%	-0.10%	0.53%	-0.08%	-0.41%	-0.12%	-0.98%	-0.82%
Real Final Sales	0.68%	2.66%	2.45%	2.07%	0.21%	2.14%	2.18%	2.11%	3.35%	2.13%	2.97%

Summary and Commentary

There are a number of disturbing items in this report **:**

-- Even at first glance this is not a good report. Although the headline number itself says "stagnation," in the context o reports it shows an economy in dynamic transition from lackluster growth towards outright contraction. The overall h number is down 2.5% from the prior quarter and down 4% from the next earlier quarter. These are significant change prior quarter's trend extended and the downward slope intensifying.

-- Private commercial investment dropped substantially, led by reduced outlays for residential construction, transport equipment and IT infrastructure.

-- The year-long 2013 cycle of inventory building has come to an end. Over an extended time period inventories are r
cyclical zero-sum game, with excessive growth or contraction over any period being corrected (i.e., reversed) during
period. Moving forward we should expect that inventories will continue their cyclical contraction, with negative cons
headline number.

-- Collapsing exports are likely confirming a weakening global economy. If so, exports are unlikely to provide the sa
growth boost that they have provided during 2013, when they grew at about twice their historic rate.

-- A positive contribution to the headline growth rate from imports is historically an inverse growth indicator, since it
consequence of reduced domestic demand (e.g., positive import contributions were particularly notable during 2008 a
and again during the overall weak 4Q-2012).

-- The Federal government's "shutdown" subtracted roughly 1% from the fourth quarter's reported growth rate. Since
some part of the reduced spending was actually only deferred (rather than foregone), we had expected a sharp "bounc
Federal spending in 1Q-2014. While that did occur to some extent in the non-defense portions of the Federal budget,
ongoing cutbacks in defense spending and shrinking state and local expenditures on infrastructure.

-- Although real household income improved somewhat (at a respectable real 1.22% annualized rate), it is still below
the fourth quarter of 2012. It bears repeating that total aggregate real per-capita income growth since the second quar
been just 1.04% -- an average annualized growth rate of just 0.19% during the entire "recovery." The household savi
over 2.5% since the fourth quarter of 2012, and it remains well below the historical long term savings rate.

-- The growth in consumer spending was caused by increased household costs for non-discretionary services -- health
utilities and financial services (e.g., rising interest rates). Spending on goods remained essentially flat, with the "grow
consumer services spending coming once again mostly out of savings -- which is unsustainable over the long haul.

-- Most of the increasing spending on services was channeled/transferred to large-cap corporate America. Discretiona
shops on "Main Street" America -- the quickest source of economic growth or new jobs -- is under renewed (and prob
unrelenting) pressure.

-- The headline growth rate is likely enhanced by an understatement of inflation. Even using BLS data to "deflate" th
results in a contracting headline number, while using data from the BPP to deflate the data results in an eye-opening -
contraction rate.

Enjoy this (barely) positive headline number while it lasts. Even if it survives the next two months of revisions, the e
momentum signaled by the past two quarters will likely carry the headline number into the red in the very near future