Consumer Metrics Institute News

May 29, 2014: BEA Revises 1st Quarter 2014 GDP Sharply Downward to Outright Contraction at Nearly a 1% Annual Rate

(Web page version is here)

In their second estimate of the US GDP for the first quarter of 2014, the Bureau of Economic Analysis (BEA) reporte economy was contracting at a -0.99% annualized rate. When compared to prior quarters, the new measurement is dov from the 2.64% growth rate reported for the 4th quarter of 2013, and it is now more than 5% lower than the 4.19% re 3rd quarter of 2013.

The largest revisions to the headline number were from inventories (revised downward by -1.05%) and imports (dow although exports improved somewhat from the prior report, they still subtracted -0.83% from the headline. Fixed inve both equipment and residential construction continued to contract. The contraction rate for government spending also slightly, with the downward revisions primarily in state and local governmental infrastructure investment.

Consumer spending was not revised significantly in this report, although the reported household savings rates droppe

The previously reported quarterly growth in real annualized per-capita disposable income was revised downward to $ disposable income figure is now $227 per year lower than it was during the fourth quarter of 2012), while the househ shrank again to 4.0% (down -0.9% from the 4.9% in the prior quarter and down -2.6% from the fourth quarter of 201

And lastly, for this report the BEA assumed annualized net aggregate inflation of 1.28%. 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 (l a half percent higher at a 1.80% (annualized) rate, and the price index reported by the Billion Prices Project (BPP -- v 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. If we were to use the BPP data to adjust for inflation, the first quarter's contraction rate would have b staggering -3.64%.

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

-- The contribution of consumer expenditures for goods to the headline number actually increased to 0.16% (still dow -0.50% from the 0.66% contribution in the prior quarter).

-- The contribution made by consumer services spending remained essentially the same at 1.93% (up 0.36% from the prior quarter). As mentioned last month, the increased spending was primarily for non-discretionary healthcare, hous and financial services -- i.e., increased expenses that stress households without providing any perceived improvemen of life.

-- Commercial private fixed investments contracted, reducing the headline number by -0.36% (after adding 0.43% du quarter). The contraction was led by reduced outlays for IT equipment, transportation equipment and residential cons

-- Inventories are now reported to be contracting substantially more sharply -- subtracting -1.62% from the headline g (down -1.60% from the prior quarter).

-- Reduced governmental spending removed an aggregate -0.15% 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 subtracted -0.83% from the headline number (a change of -2.06% from the fourth quarter). Export growth
of the bright spots of 2013 -- even as the economies of many of our trading partners softened. That source of growth

-- Imports subtracted -0.12% from the headline number (after adding 0.24% in the prior estimate).

-- The annualized growth rate for the "real final sales of domestic product" dropped slightly to 0.63% (still down ove
2.66% in the prior quarter). This is the BEA's "bottom line" measurement of the economy -- and it remains substantia
than the headline number because of the sharp contraction in inventories.

-- And as mentioned above, real per-capita annual disposable income grew by $95 during the quarter (a 1.03% annua
that number is down a material -$227 per year from the fourth quarter of 2012 (before the FICA rates normalized) an
about 1% in total ($359 per year) since the second quarter of 2008 -- some 23 quarters ago.

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 + (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%	=	69.0%	+	15.8%	+	18.2%	+	-2.9%
Contribution to GDP Growth %	-0.99%	=	2.09%	+	-1.98%	+	-0.15%	+	-0.95%

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 f
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	-0.99%	2.64%	4.12%	2.48%	1.14%	0.14%	2.78%	1.20%	3.71%	4.86%	1.37%
Consumer Goods	0.16%	0.66%	1.03%	0.71%	0.85%	0.85%	0.84%	0.50%	1.04%	1.14%	0.29%
Consumer Services	1.93%	1.57%	0.32%	0.53%	0.69%	0.29%	0.31%	0.78%	0.94%	0.51%	1.14%
Fixed Investment	-0.36%	0.43%	0.89%	0.96%	-0.23%	1.63%	0.39%	0.68%	1.21%	1.39%	1.96%
Inventories	-1.62%	-0.02%	1.67%	0.41%	0.93%	-2.00%	0.60%	-0.91%	0.36%	2.73%	-1.60%
Government	-0.15%	-0.99%	0.08%	-0.07%	-0.82%	-1.31%	0.67%	0.05%	-0.28%	-0.31%	-0.52%
Exports	-0.83%	1.23%	0.52%	1.04%	-0.18%	0.15%	0.05%	0.51%	0.56%	0.38%	0.92%
Imports	-0.12%	-0.24%	-0.39%	-1.10%	-0.10%	0.53%	-0.08%	-0.41%	-0.12%	-0.98%	-0.82%
Real Final Sales	0.63%	2.66%	2.45%	2.07%	0.21%	2.14%	2.18%	2.11%	3.35%	2.13%	2.97%

Summary and Commentary

This is a bad report, and the numbers speak for themselves. And looking at the trend lines, things are unlikely to get b
soon.

But we also feel compelled to digress from the bad news itself. While other people may be utterly shocked to find tha
is in contraction, we are much more inclined outrage at the possibility that the BEA published clearly fictitious numb
in an effort to "ease" the readings towards the bad news that they knew (or should have known) would follow shortly

-- If they (the BEA) did not realize last month that the US economy was in contraction during the first quarter of 201
sufficiently incompetent (in practice and procedure) to merit a complete overhaul and/or gutting of the agency.

-- That said, gross incompetence is probably the lesser evil -- simply because if they knew full well last month how b
really had become, they simply descended into a Goebbelesque world of publishing what they wanted the world to th

-- We wonder who the BEA is supposed to serve? The history texts tell us that the BEA's genesis was in the second F
administration's frustration at the poor performance of "live" economic data during the Great Depression. Maybe we
of FDR's ilk to get really pissed at the quality of the "live" data currently emanating from the BEA. For example, reca

BEA reported the first quarter of 2008 over time **:**

BEA's Changing View of First Quarter 2008 GDP

Reported Growth Rate	Report Date	Months Lag
+0.6%	April 30, 2008	1
+1.0%	June 26, 2008	3
-0.7%	July 31, 2009	16
-1.8%	July 29, 2011	40
-2.7%	July 31, 2013	64

-- The BEA is not serving anyone particularly well (except perhaps their political masters) with a track record like the "real-time" they overstated the 1Q-2008 growth rate (during an election year) by a staggering +3.3% (and note that in the election they initially revised that overstatement even further up). We are hard pressed to find another developed China) reporting economic data on a less timely, accurate or transparent basis.

-- And, is it remotely possible that the pace of economic growth has changed so dramatically in just two quarters -- c over 5% since the 3rd quarter of 2013? Has anyone sensed so catastrophic a change? Or for that matter, did anyone a 4% economic growth in 3Q-2013? We suspect that we will find out (some time from now) that the third and fourth q were nowhere near as wonderful as they were originally cast.

When reflecting on the BEA we have certainly offered a hard choice: incompetence or Goebbelesque. Sadly, we may fair share of both.