Consumer Metrics Institute News

June 25, 2014: BEA Reports 1st Quarter 2014 GDP Plunging at a Nearly -3% Annual Rate

(Web page version is here)

In their third estimate of the US GDP for the first quarter of 2014, the Bureau of Economic Analysis (BEA) reported
economy was contracting at a -2.94% 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 7% lower than the 4.19% re
3rd quarter of 2013 -- and it is by far the worse quarter since 2009.

The largest revisions to the headline number were from consumer services (revised downward by -1.26%) and export
-0.42%). Unfortunately, nearly everything was revised downward **:** consumer spending on goods (-0.12%), inventori
more) and imports (down an additional -0.17%). Only governmental spending and fixed investments escaped yet furt
revisions -- although both of those categories remain mired deeply in the red.

The previously reported quarterly growth in real annualized per-capita disposable income was revised downward yet
(and that disposable income figure is now $244 per year lower than it was during the fourth quarter of 2012).

And lastly, for this report the BEA assumed annualized net aggregate inflation of 1.27%. 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 (
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
-5.62%.

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

-- The contribution of consumer expenditures for goods to the headline number dropped to a stagnant 0.04% (down a
-0.62% from the 0.66% contribution in the prior quarter).

-- The contribution made by consumer services spending plunged to 0.67% (down -0.90% from the 1.57% in the prio
revision totally reversed the BEA's previous measurement of a sharp increase in non-discretionary healthcare expense
such it presents a somewhat murkier (and less negative) picture of the ongoing real economic impact of ObamaCare.

-- The previously reported contraction in commercial private fixed investments was confirmed, reducing the headline
-0.27% (after adding 0.43% during the prior quarter). The contraction was led by reduced outlays for IT equipment, t
equipment and residential construction.

-- The contraction in inventories was somewhat worse than previously reported -- subtracting -1.70% from the headli
(down -1.68% from the prior quarter).

-- Contracting governmental spending was essentially unchanged, removing an aggregate -0.14% from the headline n

-- Exports are now reported to be subtracting -1.25% from the headline number (a change of -2.48% from the fourth

-- Imports subtracted -0.29% from the headline number (roughly the same as the -0.24% in the prior quarter).

-- The annualized growth rate for the "real final sales of domestic product" dropped into contraction: -1.24% (now do
the 2.66% in the prior quarter). This is the BEA's "bottom line" measurement of the economy, and this is the first tim
contracted since the first quarter of 2011.

-- And as mentioned above, real per-capita annual disposable income grew by $78 during the quarter (a 0.85% annua
that number is down a material -$244 per year from the fourth quarter of 2012 (before the FICA rates normalized) an
about 1% in total ($342 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)	$17.0	=	$11.7	+	$2.7	+	$3.1	+	$-0.5
% of GDP	100.0%	=	68.9%	+	15.8%	+	18.3%	+	-3.1%
Contribution to GDP Growth %	-2.94%	=	0.71%	+	-1.97%	+	-0.14%	+	-1.54%

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	-2.94%	2.64%	4.12%	2.48%	1.14%	0.14%	2.78%	1.20%	3.71%	4.86%	1.37%
Consumer Goods	0.04%	0.66%	1.03%	0.71%	0.85%	0.85%	0.84%	0.50%	1.04%	1.14%	0.29%
Consumer Services	0.67%	1.57%	0.32%	0.53%	0.69%	0.29%	0.31%	0.78%	0.94%	0.51%	1.14%
Fixed Investment	-0.27%	0.43%	0.89%	0.96%	-0.23%	1.63%	0.39%	0.68%	1.21%	1.39%	1.96%
Inventories	-1.70%	-0.02%	1.67%	0.41%	0.93%	-2.00%	0.60%	-0.91%	0.36%	2.73%	-1.60%
Government	-0.14%	-0.99%	0.08%	-0.07%	-0.82%	-1.31%	0.67%	0.05%	-0.28%	-0.31%	-0.52%
Exports	-1.25%	1.23%	0.52%	1.04%	-0.18%	0.15%	0.05%	0.51%	0.56%	0.38%	0.92%
Imports	-0.29%	-0.24%	-0.39%	-1.10%	-0.10%	0.53%	-0.08%	-0.41%	-0.12%	-0.98%	-0.82%
Real Final Sales	-1.24%	2.66%	2.45%	2.07%	0.21%	2.14%	2.18%	2.11%	3.35%	2.13%	2.97%

Summary and Commentary

Let's take a look at both the good news and the bad news in this report **:**

The Good News

-- The BEA totally reversed itself on the household savings rate, which is now reported to have increased (slightly) d
quarter (to 4.4% from 4.3% in 4Q-2013) after two previous estimates of declining savings. This improved savings rat
with the downward revision in consumer spending, and it will be used by the "bad weather" apologists as confirmatic
plunging economic activity was due to a particularly harsh winter -- with the increasing savings yet another sign of th
demand" that is even now quickly reversing a one-off quarterly blip.

As Ms. Yellen explained to us only last week **:** "Although real GDP declined in the first quarter, this decline appears
resulted mainly from transitory factors ... Economic activity is rebounding in the current quarter and will continue to
moderate pace thereafter ... "

-- Ms. Yellen went on to say **:** "Private domestic final demand -- that is, spending by domestic households and busine
continued to expand in the first quarter ..."

While that was technically correct, it was arguably a case of semantics and cherry-picking positive lines from the eco
Her preferred measurement conveniently omitted inventories, government expenditures, exports and imports -- all of
negative. By doing so she calculated a new "private domestic final demand" benchmark that is growing -- albeit at an
Meanwhile the BEA's "bottom line" real final sales of domestic product was contracting at a -1.24% annual rate durin

quarter of 2014.

The Bad News

Nearly everything else **:**

-- We might hope that the "bad weather" theorists will note that the sharp downward revision to consumer services sp occurred almost exclusively in non-discretionary healthcare expenditures, which is difficult to blame on a harsh wint since discretionary recreational spending during that same storm plagued time span was actually revised upward and essentially neutral.

-- The slightly improved 4.4% household savings rate is still a half percent lower than the 4.9% savings rate measure quarter of 2013, let alone the 6.6% rate achieved during the 4th quarter of 2012.

-- The "bad weather" spin-meisters need to explain how a harsh winter caused exports to plunge -- resulting in a roug change in the headline number relative to the prior quarter. Export growth had been one of the bright spots of 2013 -- economies of many of our trading partners softened. That source of growth has ended, bad weather or not.

-- Consumer spending is contributing roughly 1.5% less to the headline annualized growth number than during 4Q-20

-- The growth contribution from fixed commercial investment is down .7% from 4Q-2013, and down roughly 1.2% fr

-- Governmental spending continues to contract.

-- Inventories continue to contract.

-- Per-capita real disposable income is increasing at a miserable 0.85% annual rate. Note that those per-capita numbe mean, and are pushed up by gains among the super wealthy. Surveys of median household disposable income are actu continued contraction.

-- The numbers are likely boosted by low "deflators" and are almost certainly more positive than households are actu experiencing. Using a "deflator" that is closer to real household experiences (e.g., the Billion Prices Project) results i contraction rate of -5.62%.

-- Looking at the past three quarters for trend lines, we see growth rates of +4.12% (3Q-2013), +2.64% (4Q-2013) an (1Q-2014). The trend line is not only down, it is clearly getting worse.

Yet Ms. Yellen tells us not to worry **:** "Economic activity is rebounding in the current quarter." We certainly hope so, demand" quickly reversing a one-off blip of a quarter that is frighteningly reminiscent of 2008-2009.

But Ms. Yellen's assurances are interesting for yet another reason. In roughly a month we will know if she is remotel is not, we will have to choose whether she is guilty of merely spinning happy bubble talk or is basing Fed policy on b misinformed or untimely economic data. Frankly, we would much prefer the former.