Consumer Metrics Institute News

July 30, 2014: BEA Reports 2nd Quarter 2014 GDP Growing at 3.94% Annual Rate

(Web page version is here)

In their first estimate of the US GDP for the second quarter of 2014, the Bureau of Economic Analysis (BEA) reporte
growing at a +3.94% annualized rate. When compared to the prior quarter, the new measurement is up over 6% from
for the 1st quarter of 2014 (which was itself revised upward +0.83% from a previously reported -2.94% contraction).
positive quarter to quarter improvement in GDP growth in some 14 years.

The largest contributions to the 2nd quarter 2014 +6% turnaround in the headline number were from inventories (+2.
consumer goods expenditures (+1.2%) and commercial fixed investments (+0.9%). Offsetting those positive quarter-
changes were deteriorating imports (which weakened by -1.5%) and consumer expenditures for services (down -0.3%

Real annualized per-capita disposable income was reported to be $37,449 -- up some $284 from the prior quarter (a 3
rate) but still down $420 from the 4th quarter of 2012. A significant portion of that increased disposable income went
savings rate growing to 5.3% -- the highest savings level since 4Q-2012.

For this report the BEA effectively assumed annualized quarterly inflation of 2.00%. During the second quarter (i.e.,
the growth rate of the seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (BLS) was over o
higher at a 3.53% (annualized) rate, and the price index reported by the Billion Prices Project (BPP -- which arguably
experiences of American households) was three quarters of a percent higher at 2.72%. Under reported inflation will r
growth data, and if the BEA's numbers were corrected for inflation using the BLS CPI-U the economy would be repo
2.49% annualized rate. If we were to use the BPP data to adjust for inflation, the first quarter's growth rate would hav

Separately, the BEA released its annual revision to historical data (dating back to 1999). Average quarterly annualize
and 2012 was reported to have been somewhat lower than previously reported (by about a third of a percent each yea
quarterly annualized growth in 2013 was revised upward (by about a half percent).

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

-- The contribution of consumer expenditures for goods to the headline number was 1.38% (up a substantial 1.15% fr
contribution now reported for the prior quarter).

-- The contribution made by consumer services spending dropped to 0.31% (down -0.29% from the 0.60% reported f

-- Commercial private fixed investments provided 0.91% of the headline number (after adding only 0.03% during the

-- The prior quarter's contraction in inventories reversed -- adding 1.66% to the headline growth rate after subtracting
quarter.

-- Governmental spending grew, adding 0.30% to the headline after removing -0.15% in the prior quarter. All of that
and local levels.

-- Exports are now reported to be adding 1.23% to the headline growth rate after subtracting -1.30% during the first q

-- Imports subtracted -1.85% from the headline number after removing only -0.36% during the prior quarter.

-- The annualized growth rate for the "real final sales of domestic product" is reported to be 2.28% (after contracting
prior quarter). This is the BEA's "bottom line" measurement of the economy, and it is lower than the headline numbe
inventories.

-- And as mentioned above, real per-capita annual disposable income grew by $284 during the quarter (a 3.09% annu
disposable income is still down a material -$420 per year from the fourth quarter of 2012 (before the FICA rates nor
about 2% in total since the second quarter of 2008 -- some 6 years ago.

The Numbers, With All Past Data 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 - i

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
number) are as follows **:**

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M
Annual $ (trillions)	$17.3	=	$11.9	+	$2.8	+	$3.2	+	$-0.6
% of GDP	100.0%	=	68.6%	+	16.4%	+	18.3%	+	-3.3%
Contribution to GDP Growth %	3.94%	=	1.69%	+	2.57%	+	0.30%	+	-0.62

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best un
below, which breaks out the component contributions in more detail and over time. In the table below we have split t
goods and services, split the "I" component into fixed investment and inventories, separated exports from imports, ad
"Real Final Sales of Domestic Product" and listed the quarters in columns with the most current to the left **:**

Quarterly Changes in % Contributions to GDP

	2Q-2014	1Q-2014	4Q-2013	3Q-2013	2Q-2013	1Q-2013	4Q-2012	3Q-2012	2Q-2012	1Q-2012	4Q-2011
Total GDP Growth	3.94%	-2.11%	3.50%	4.51%	1.77%	2.75%	0.06%	2.48%	1.62%	2.25%	4.59%
Consumer Goods	1.38%	0.23%	0.83%	0.80%	0.30%	1.35%	0.67%	0.74%	0.29%	1.06%	0.90%
Consumer Services	0.31%	0.60%	1.69%	0.59%	0.93%	1.11%	0.65%	0.58%	0.57%	0.81%	0.04%
Fixed Investment	0.91%	0.03%	0.95%	1.01%	0.74%	0.42%	0.96%	0.45%	0.61%	1.24%	1.36%
Inventories	1.66%	-1.16%	-0.34%	1.49%	0.30%	0.70%	-1.80%	-0.19%	0.27%	-0.20%	2.80%
Government	0.30%	-0.15%	-0.71%	0.04%	0.04%	-0.75%	-1.20%	0.52%	-0.08%	-0.56%	-0.31%
Exports	1.23%	-1.30%	1.30%	0.67%	0.82%	-0.12%	0.19%	0.28%	0.64%	0.19%	0.56%
Imports	-1.85%	-0.36%	-0.22%	-0.09%	-1.36%	0.04%	0.59%	0.10%	-0.68%	-0.29%	-0.76%
Real Final Sales	2.28%	-0.95%	3.84%	3.02%	1.47%	2.05%	1.86%	2.67%	1.35%	2.45%	1.79%

Summary and Commentary

At first glance this report shows an astonishing turnaround in the economy. It generally exceeded expectations and fu
Yellen's promise that "... Economic activity is rebounding ... and will continue to expand at a moderate pace thereafte
it really was just "bad weather."

And the key measure of "real" per capita disposable income actually shows signs of measurable growth, managing a
rate.

Plus the dreaded "annual revisions" were far less dramatic than we had come to expect. Although nearly all of the his
was basically a zero net exercise -- with weaker data for 2011 and 2012 mostly offset by stronger data for 2013.

But before we run out to celebrate, let's look a few items that might argue for some caution **:**

-- An increased household savings rate absorbed about half of the improved disposable income. And less than 1% of
headline rate was the result of greater consumer spending. Households are still reluctant to spend freely.

-- We have mentioned many times before that inventories are, over time, a zero-sum game. They are also highly vola
business cycle factors and the BEA's inventory measurement and valuation methodologies. For that reason the BEA i
from what it considers its "bottom line" -- the "real final sales of domestic product." By that measure the economy wa
more modest 2.28% (even using really favorable assumptions about inflation).

-- The volatility in the BEA's numbers is eroding trust **:** the official measurement of economic growth for the first qua
to -0.99% to -2.94% over a span of just 56 days. Those reports contained material differences that called for drastical
plans and/or corporate responses. At best any of the BEA's initial data lacks credibility. At worst it is a lame guesstim

expectations -- making it arguably the least accurate and least timely among Western developed countries.

-- On "Main Street" the economy is most likely not growing at 4%, unemployment is certainly not roughly 6% by an
the reported increase in average household incomes was likely skewed by the upper end. Median households underst
increased savings.

-- But if Ms. Yellen is either particularly gullible or desperately looking for a rationale to begin "normalizing" monet
provides a far better read that what we saw just last month. An economy officially growing at 4% with roughly 6% u
argue strongly for an end to QE and a return to historicly prevalent interest rates.

Unfortunately, this is yet another initial BEA report. We would recommend keeping the champagne on ice for at leas