Consumer Metrics Institute News

August 28, 2014: BEA Revises 2nd Quarter 2014 GDP Growth Up to 4.18% Annualized Rate

(Web page version is here)

In their second estimate of the US GDP for the second quarter of 2014, the Bureau of Economic Analysis (BEA) repo
was growing at a +4.18% annualized rate, up about a quarter of a percent from their previous estimate. When compar
the new measurement is now up about 6.3% from a -2.11% contraction rate for the 1st quarter of 2014. This is the lar
quarter improvement in GDP growth in 14 years.

The largest positive revisions to the growth contributions during the 2nd quarter growth were in commercial fixed inv
imports (+0.11%), exports (+0.08%) and consumer expenditures for services (+0.09%). The increase in consumer ser
mostly offset by reduced spending for consumer goods (-0.08%), and the improved fixed investment was partially of
building (-0.27%). The "real final sales of domestic product" growth improved by about a half percent to +2.79%

Real annualized per-capita disposable income was reported to be $37,481 -- up $32 per year from the previous estima
from the 4th quarter of 2012. As mentioned last month, a significant portion of that increased disposable income wen
savings rate holding at 5.3% -- the highest savings level since 4Q-2012.

For this report the BEA effectively assumed annualized quarterly inflation of 2.15%. 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 over a half of a percent higher at 2.72%. Under reported inflation will resu
growth data, and if the BEA's numbers were corrected for inflation using the BLS CPI-U the economy would be repo
2.89% annualized rate. If we were to use the BPP data to adjust for inflation, the quarter's growth rate would have be

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

-- The headline contribution of consumer expenditures for goods was 1.30% (down -0.08% from the previous report)

-- The contribution made by consumer services spending increased to 0.40% (up +0.09% from the 0.31% reported las
contribution to the headline number by consumers was 1.70%.

-- Commercial private fixed investments provided 1.25% of the headline number (up from 0.91% in the earlier estima

-- Inventories growth added 1.39% to the headline number (down -0.27% from the first estimate).

-- Governmental spending was essentially unchanged, adding 0.27% to the headline.

-- Exports are now reported to be adding 1.31% to the headline growth rate (up 0.08% from last month's estimate).

-- Imports subtracted -1.74% from the headline number (a 0.11% improvement from the previous report). The combi
trade revisions on the headline number increased by nearly 0.2%.

-- The annualized growth rate for the "real final sales of domestic product" is now reported to be 2.79% (up 0.51% fr
This is the BEA's "bottom line" measurement of the economy, and it is lower than the headline number because of th

-- And as mentioned above, real per-capita annual disposable income was $32 per year higher than previously reporte represents an annualized growth rate of 3.53%, the highest reported growth rate since the fourth quarter of 2012. Tha income is still down a material -$388 per year from that same fourth quarter of 2012 (before the FICA rates normaliz 2.19% in total since the second quarter of 2008 -- a miserable 0.36% annualized growth rate over the past 6 years.

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 - 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%	+	-3.2%
Contribution to GDP Growth %	4.18%	=	1.70%	+	2.64%	+	0.27%	+	-0.43

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc 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	4.18%	-2.11%	3.50%	4.51%	1.77%	2.75%	0.06%	2.48%	1.62%	2.25%	4.59%
Consumer Goods	1.30%	0.23%	0.83%	0.80%	0.30%	1.35%	0.67%	0.74%	0.29%	1.06%	0.90%
Consumer Services	0.40%	0.60%	1.69%	0.59%	0.93%	1.11%	0.65%	0.58%	0.57%	0.81%	0.04%
Fixed Investment	1.25%	0.03%	0.95%	1.01%	0.74%	0.42%	0.96%	0.45%	0.61%	1.24%	1.36%
Inventories	1.39%	-1.16%	-0.34%	1.49%	0.30%	0.70%	-1.80%	-0.19%	0.27%	-0.20%	2.80%
Government	0.27%	-0.15%	-0.71%	0.04%	0.04%	-0.75%	-1.20%	0.52%	-0.08%	-0.56%	-0.31%
Exports	1.31%	-1.30%	1.30%	0.67%	0.82%	-0.12%	0.19%	0.28%	0.64%	0.19%	0.56%
Imports	-1.74%	-0.36%	-0.22%	-0.09%	-1.36%	0.04%	0.59%	0.10%	-0.68%	-0.29%	-0.76%
Real Final Sales	2.79%	-0.95%	3.84%	3.02%	1.47%	2.05%	1.86%	2.67%	1.35%	2.45%	1.79%

Summary and Commentary

At face value this report continues to show a strongly rebounding US economy driven by commercial fixed investme and surging exports. It shows a growth rate that -- when coupled with largely normalized official unemployment data finally reached a full recovery after the nightmare of the Great Recession. The economy apparently has reached the n velocity" after the unprecedented and persistent interventions by Ms. Yellen and Mr. Bernanke.

We, on the other hand, would much prefer a recovery that is driven more organically by consumers merrily disposing income. Before we fully buy the current euphoria from the BEA and crack open a fresh case of champagne, let's look for continued caution:

-- Consumers spending provided about 41% of the headline growth while representing a much larger 69% of the sper disposable income has grown only 2% in aggregate since 2008. Household spending remains constrained, and a healt that the majority of consumers remain skeptical about the veracity and sustainability of this "recovery."

-- Inventories tend to revert to their means. This quarter's inventory growth is essentially the flip side of last quarter's (over the long haul) a largely zero-sum series.

-- Surging exports fly in the face of softening economic growth among our major trading partners. The US has clearly round of the ongoing currency wars, but that worm is also likely to turn.

-- And lastly, a gut check: did the 2nd quarter really feel like an economy that was growing 6.3% faster than during th either a phenomenal turnaround over just 90 days, or a sign of seriously noisy numbers momentarily pointing toward unsustainable growth. When presented with contradictory or wildly noisy data, we have always trusted our gut feelin

To that last point: assuming that an economy with the size, complexity and inertia of the US economy can't really hav excess of 6% over 90 days, what is the real rate of GDP growth? In fact, either averaging the trailing 4 quarters or cal year-over-year change over the 4 quarters gives us a 2.5% real growth rate -- essentially the same as the 2.3% growth spending recorded over that same time span. When the BEA's overly modest deflators are taken into consideration, ar

closer to 2% emerges -- with per-capita GDP growth further diluted by a growing population to 1.1%. Those are certa
growth rates that cut through most of the noise in the BEA's headlines and more closely align with our gut feelings.

Our recommendation: keep both the champagne and your expectations corked and well chilled.
