Consumer Metrics Institute News

September 26, 2014: BEA Revises 2nd Quarter 2014 GDP Growth Up Again to 4.59% Annualized Rate

(Web page version is here)

In their third estimate of the US GDP for the second quarter of 2014, the Bureau of Economic Analysis (BEA) report growing at a +4.59% annualized rate, up about a half a percent yet again from their previous estimate. When compare new measurement is now up 6.7% from a -2.11% contraction rate for the 1st quarter of 2014. This level of quarter to GDP growth is truly rare; this is the best since the 2nd quarter of 2000, and the second best since the 2nd quarter of 1

The positive revisions to the growth contributions during the 2nd quarter growth were in commercial fixed investmer (+0.12%), consumer expenditures (+0.05%), governmental expenditures (+0.04%) and inventories (+0.03%). The on to imports (-0.03%). The "real final sales of domestic product" growth improved by about a half percent to +3.17%

Real annualized per-capita disposable income was reported to be $37,494 -- up $13 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 increasing to 5.4% -- 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 3.31% 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 1.33% (up +0.03% from the previous report).

-- The contribution made by consumer services spending increased to 0.42% (up +0.02% from the 0.40% reported las contribution to the headline number by consumers was 1.75%, up +0.05 from the prior report.

-- Commercial private fixed investments provided 1.45% of the headline number (up +0.20% from the 1.25% in the e uptick continues to be mostly in non-residential construction.

-- Inventories growth added 1.42% to the headline number (up +0.03% from the second estimate).

-- Governmental spending was up +0.04%, now adding 0.31% to the headline. The improvement was all at a state an on infrastructure investment.

-- Exports are now reported to be adding 1.43% to the headline growth rate (up +0.12% from last month's estimate).

-- Imports subtracted -1.77% from the headline number (a -0.03% deterioration from the previous report). The combi trade revisions on the headline number improved by nearly 0.1%.

-- The annualized growth rate for the "real final sales of domestic product" is now reported to be 3.17% (up +0.38% f

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 $13 per year higher than previously reporte represents an annualized growth rate of 3.68%, the highest reported growth rate since the fourth quarter of 2012. Tha income is still down a material -$375 per year from that same fourth quarter of 2012 (before the FICA rates normaliz 2.23% in total since the second quarter of 2008 -- a miserable 0.37% 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	+	$-0.5
% of GDP	100.0%	=	68.5%	+	16.4%	+	18.3%	+	-3.2%
Contribution to GDP Growth %	4.59%	=	1.75%	+	2.87%	+	0.31%	+	-0.34%

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	4.59%	-2.11%	3.50%	4.51%	1.77%	2.75%	0.06%	2.48%	1.62%	2.25%	4.59%
Consumer Goods	1.33%	0.23%	0.83%	0.80%	0.30%	1.35%	0.67%	0.74%	0.29%	1.06%	0.90%
Consumer Services	0.42%	0.60%	1.69%	0.59%	0.93%	1.11%	0.65%	0.58%	0.57%	0.81%	0.04%
Fixed Investment	1.45%	0.03%	0.95%	1.01%	0.74%	0.42%	0.96%	0.45%	0.61%	1.24%	1.36%
Inventories	1.42%	-1.16%	-0.34%	1.49%	0.30%	0.70%	-1.80%	-0.19%	0.27%	-0.20%	2.80%
Government	0.31%	-0.15%	-0.71%	0.04%	0.04%	-0.75%	-1.20%	0.52%	-0.08%	-0.56%	-0.31%
Exports	1.43%	-1.30%	1.30%	0.67%	0.82%	-0.12%	0.19%	0.28%	0.64%	0.19%	0.56%
Imports	-1.77%	-0.36%	-0.22%	-0.09%	-1.36%	0.04%	0.59%	0.10%	-0.68%	-0.29%	-0.76%
Real Final Sales	3.17%	-0.95%	3.84%	3.02%	1.47%	2.05%	1.86%	2.67%	1.35%	2.45%	1.79%

Summary and Commentary

This report once again strengthens the Fed's hand for completing the QE taper, which should finish before the next G that is reported to be growing at 4.6% might be argued to be tipping gently towards overheating, especially when the of +6.7% is taken into consideration. This report can also be conveniently spun by political hacks into a "happy days while heading into the final month before midterm elections.

We repeat that at purely "face value" this report also purports to show a strongly rebounding US economy driven by investments, growing inventories, surging exports and a modestly healthy consumer. The +6.7% quarter to quarter ch if we view the 2Q-2000 report as somewhat noisy and spurious (since the purported gain was more than fully reverse quarter), we have to go back over 30 years into the early 1980's to find such a dynamic quarterly turn-around (provid current +6.7% turn-around is less spurious than the one reported in 2Q-2000).

We caution that a "face value" reading could be seriously misleading. Let's quickly review the reasons for our concer

-- Consumer spending provided 38% of the headline growth while representing nearly 70% of the spending. Real per has grown only 2% (in aggregate!) since 2008, at a minuscule 0.37% annualized rate. Household spending remains c (and increasing) savings rate indicates that the majority of consumers remain skeptical about the veracity and sustain "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 both softening economic growth among our major trading partners and a strength fully re-acclimates to the new exchange realities it will be the export numbers that will suffer the most.

It is here that we would normally caution that a plausibly noisy "final" 2nd quarter growth could get reversed in the n
just as it did in 2000. But we also need to remind you that the next report will be issued just 5 days before the mid-ter
next report after the flaky "final" 2Q-2000 numbers was also just days before a major election, and the bombshell rev
fortunes did not treat the incumbents quite so well.

The next report should be interesting.
