Consumer Metrics Institute News

October 30, 2014: BEA Estimates 3rd Quarter 2014 GDP Growth at 3.54% Annualized Rate

(Web page version is here)

In their first estimate of the US GDP for the third quarter of 2014, the Bureau of Economic Analysis (BEA) reported +3.54% annualized rate, down a little more than a percent from the second quarter.

"Improving" imports and government spending are the stars of this report. Imports swung into positive territory with headline number, up +2.06% from the prior quarter. Similarly, governmental spending contributed +0.83% to the hea the 2nd quarter (with Federal defense "consumption expenditures" creating a +0.76% boost to the headline number al and local spending softened). Essentially all of the other line items were either flat or had a negative quarter-to-quarte Inventories (as expected) reverted to mean and took -0.57% out of the headline. Commercial fixed investments grew during the prior quarter, the growth in exports lost about a third, the growth rate for consumer spending on goods was spending on services did increase, the increase was a relatively mild +0.10%.

Some good news: real annualized per-capita disposable income was reported to be $37,671 -- up $177 per year from down $198 from the 4th quarter of 2012). Again a significant portion of that increased disposable income went into s increasing to 5.5% -- once more the highest savings level since 4Q-2012.

Inflation (or disinflation/deflation) plays a major part in this report, since during the quarter dollar-based energy price gasoline prices fell from $3.68 per gallon to $3.32 during the quarter, a 9.8% quarter-to-quarter decline and a -33.8% consumer oriented inflation indexes into negative territory. During the third quarter (i.e., from July through Septembe index published by the Bureau of Labor Statistics (BLS) was actually mildly deflationary at a -0.10% (annualized) ra the Billion Prices Project (BPP -- which arguably reflected the real experiences of American households) was slightly (annualized).

Yet for this report the BEA effectively assumed a positive annualized quarterly inflation of 1.28%. Over reported infl pessimistic growth data, and if the BEA's numbers were corrected for inflation using the BLS CPI-U the economy wo spectacular 4.97% annualized rate. If we were to use the BPP data to adjust for inflation, the quarter's growth rate wo annualized rate.

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

-- The headline contribution of consumer expenditures for goods was 0.70% (down -0.63% from the prior quarter).

-- The contribution made by consumer services spending increased to 0.52% (up +0.10% from the 0.42% reported las contribution to the headline number by consumers was 1.22%, down -0.53% from the prior quarter.

-- Commercial private fixed investments provided +0.74% of the headline number (down -0.71% from the 1.45% in t positive growth continues to be almost exclusively in non-residential construction.

-- Inventories subtracted -0.57% from the headline number (down -1.99% from the +1.42% reported for the second q

-- Governmental spending was up +0.52%, now adding 0.83% to the headline. The improvement was all at a Federal expenditures". The growth of state and local spending softened -0.23% relative to the 2nd quarter.

-- Exports are now reported to be adding 1.03% to the headline growth rate (down -0.40% from the second quarter).

-- Imports added +0.29 to the headline number (a +2.06% turnaround from the prior quarter). The combined impact o
quarter-to-quarter on the headline number was a significant +1.66%.

-- The annualized growth rate for the "real final sales of domestic product" is now reported to be 4.11% (up +0.94% f
BEA's "bottom line" measurement of the economy, and it is now higher than the headline number because of the shri

-- And as mentioned above, real per-capita annual disposable income was $177 per year higher than during the prior
an annualized growth rate of 1.90%. That said, the real disposable income is still down a material -$198 per year fron
the FICA rates normalized) and it is up only 2.71% in total since the second quarter of 2008 -- a miserable 0.43% ann
and a quarter years.

The Numbers

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 + (expor

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
follows **:**

GDP Components Table

	Total GDP	=	C	+	I	+	G	+
Annual $ (trillions)	$17.5	=	$12.0	+	$2.9	+	$3.2	+
% of GDP	100.0%	=	68.2%	+	16.3%	+	18.3%	+
Contribution to GDP Growth %	3.54%	=	1.22%	+	0.17%	+	0.83%	+

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc
which breaks out the component contributions in more detail and over time. In the table below we have split the "C"

split the "I" component into fixed investment and inventories, separated exports from imports, added a line for the BE
Product" and listed the quarters in columns with the most current to the left **:**

Quarterly Changes in % Contributions to GDP

	3Q-2014	2Q-2014	1Q-2014	4Q-2013	3Q-2013	2Q-2013	1Q-2013	4Q-2012	3Q-2012	2Q-2012	1Q-2012
Total GDP Growth	3.54%	4.59%	-2.11%	3.50%	4.51%	1.77%	2.75%	0.06%	2.48%	1.62%	2.25%
Consumer Goods	0.70%	1.33%	0.23%	0.83%	0.80%	0.30%	1.35%	0.67%	0.74%	0.29%	1.06%
Consumer Services	0.52%	0.42%	0.60%	1.69%	0.59%	0.93%	1.11%	0.65%	0.58%	0.57%	0.81%
Fixed Investment	0.74%	1.45%	0.03%	0.95%	1.01%	0.74%	0.42%	0.96%	0.45%	0.61%	1.24%
Inventories	-0.57%	1.42%	-1.16%	-0.34%	1.49%	0.30%	0.70%	-1.80%	-0.19%	0.27%	-0.20%
Government	0.83%	0.31%	-0.15%	-0.71%	0.04%	0.04%	-0.75%	-1.20%	0.52%	-0.08%	-0.56%
Exports	1.03%	1.43%	-1.30%	1.30%	0.67%	0.82%	-0.12%	0.19%	0.28%	0.64%	0.19%
Imports	0.29%	-1.77%	-0.36%	-0.22%	-0.09%	-1.36%	0.04%	0.59%	0.10%	-0.68%	-0.29%
Real Final Sales	4.11%	3.17%	-0.95%	3.84%	3.02%	1.47%	2.05%	1.86%	2.67%	1.35%	2.45%

Summary and Commentary

Frankly, this report once again sends mixed messages:

-- On the surface it strengthened the Fed's hand for completing the QE taper. An economy that is growing at 3.54% is
need very little additional help from central banking officials.

-- That said, consumers are not spending as if the economy is healthy. Consumers generated only 1.22% of that headl
of the economy. The growth in real per-capita disposable income is welcomed, but increased savings absorbed a sign
Apparently consumers remain wary.

-- And the inventory worm has turned. It provided +1.42% of last quarter's headline number, and promptly subtracted
number. As we have mentioned many times, this is a line item that over the long haul has been essentially a zero sum
long term zero sum we could see at least another quarter of negative contribution.

-- The growth in Federal "consumption expenditures" is an annual end-of-fiscal-year ritual. These are "expenditures"
any remaining budget allocations before they vanish at the end of September. In fact, the spending is only pulled forv
Federal spending "growth" generally reverses. Those more cynical than us might point out that the annual specious F
conveniently reported just before election days.

-- The wild card in all of this is reflected in the CPI and BPP numbers: the strengthening of the dollar has created an a

environment for some goods that is likely playing havoc with the BEA's computations for inventories, exports and im
being impacted by the double whammy of increased domestic production and crashing oil prices. In any event, the im
likely masking to some extent what is happening in the underlying "real" economy.

In some regards this report contains far too much noise to be able to tease out any real signals regarding the economy
unlikely to improve for some time.
