Consumer Metrics Institute News

November 25, 2014: BEA Revises 3rd Quarter 2014 GDP Growth Upwards to 3.89% Annualized Rate

(Web page version is here)

In their second estimate of the US GDP for the third quarter of 2014, the Bureau of Economic Analysis (BEA) report
at a +3.89% annualized rate, up +0.35% from their first estimate for the 3rd quarter but still down some -0.70% from
registered during the second quarter.

The modest improvement in the headline number masks substantial changes in the reported sources of the annualized
significant inventory draw-down almost vanished completely (dropping to a mere -0.12% impact on the headline num
added +0.23% to the headline, with nearly all of that improvement from spending for commercial equipment. Consur
reported to be growing about a quarter of a percent faster (+0.27%) in this report, while consumer spending for servic
(+0.02%).

Offsetting those upside revisions was a significant erosion in the previously reported export growth, which subtracted
contribution from imports in the headline number also weakened, taking the annualized growth down another -0.17%
revised down slightly, knocking another -0.07% from the headline. Nearly all of that downward revision to governme
state and local investment in infrastructure.

Despite the increased consumer spending, households actually took a disposable income hit in this revision -- losing
disposable income (now reported to be $37,525 per annum). This is down $344 per year from the 4th quarter of 2012
above came exclusively from reduced household savings, which dropped a full half percent in this report.

As mentioned last month, softening energy prices play a major role in this report, since during the 3rd quarter dollar-
(and have continued their dive since). US "at the pump" gasoline prices fell from $3.68 per gallon to $3.32 during the
decline and a -33.8% annualized rate -- pushing most consumer oriented inflation indexes into negative territory. Dur
through September) the seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (BLS) was actu
-0.10% (annualized) rate, and the price index reported by the Billion Prices Project (BPP -- which arguably reflected
households) was slightly more dis-inflationary at -0.18% (annualized).

Yet for this report the BEA effectively assumed a positive annualized quarterly inflation of 1.40%. Over reported infl
pessimistic growth data, and if the BEA's numbers were corrected for inflation using the appropriate BLS CPI-U and
reported to be growing at a spectacular 5.42% annualized rate. If we were to use just the BPP data to adjust for inflati
have been an astounding 5.52% annualized rate.

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

-- The headline contribution of consumer expenditures for goods was 0.97% (up +0.27% from the previous estimate,
quarter).

-- The contribution made by consumer services spending increased to 0.54% (up +0.02 from the previous report and
last quarter). The combined consumer contribution to the headline number by consumers was 1.51%, down -0.24% fr

-- Commercial private fixed investments provided +0.97% of the headline number (down -0.48% from the 1.45% in t
positive growth is nearly all non-residential.

-- Inventories subtracted only -0.12% from the headline number (up +0.45% from the -0.57% previously reported).

-- Governmental spending added +0.76% to the headline. The improvement was nearly all at a Federal level, in spend
expenditures". The growth of state and local spending softened -0.29% relative to the 2nd quarter. The growth in Fed
pulled forward from the 4th quarter as a result of fiscal year-end budgetary maneuvers -- and is therefore also likely t

-- Exports are now reported to be adding 0.65% to the headline growth rate (down -0.38% from the first estimate and

-- Imports added +0.12% to the headline number (down -0.17% from the previous estimate, but up +1.89% from the
revisions in the foreign trade data removed over a half percent from the previous estimate's headline.

-- The annualized growth rate for the "real final sales of domestic product" is now reported to be 4.01% (down -0.10
the BEA's "bottom line" measurement of the economy, and it is slightly higher than the headline number because of t

-- And as mentioned above, real per-capita annual disposable income was revised downward by $146 per year, halvi
quarter-to-quarter increase. The new number represents an annualized growth rate of 1.56%. Real disposable income
year from the fourth quarter of 2012 (before the FICA rates normalized) and it is up only 2.31% in total since the sec
0.37% annualized growth rate over the past 6 and a quarter 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 + (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)	$17.6	=	$12.0	+	$2.9	+	$3.2	+
% of GDP	100.0%	=	68.2%	+	16.5%	+	18.3%	+

Contribution to GDP Growth %	3.89%	=	1.51%	+	0.85%	+	0.76%	+

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best und
which breaks out the component contributions in more detail and over time. In the table below we have split the "C" 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	3.89%	4.59%	-2.11%	3.50%	4.51%	1.77%	2.75%	0.06%	2.48%	1.62%	2.25%
Consumer Goods	0.97%	1.33%	0.23%	0.83%	0.80%	0.30%	1.35%	0.67%	0.74%	0.29%	1.06%
Consumer Services	0.54%	0.42%	0.60%	1.69%	0.59%	0.93%	1.11%	0.65%	0.58%	0.57%	0.81%
Fixed Investment	0.97%	1.45%	0.03%	0.95%	1.01%	0.74%	0.42%	0.96%	0.45%	0.61%	1.24%
Inventories	-0.12%	1.42%	-1.16%	-0.34%	1.49%	0.30%	0.70%	-1.80%	-0.19%	0.27%	-0.20%
Government	0.76%	0.31%	-0.15%	-0.71%	0.04%	0.04%	-0.75%	-1.20%	0.52%	-0.08%	-0.56%
Exports	0.65%	1.43%	-1.30%	1.30%	0.67%	0.82%	-0.12%	0.19%	0.28%	0.64%	0.19%
Imports	0.12%	-1.77%	-0.36%	-0.22%	-0.09%	-1.36%	0.04%	0.59%	0.10%	-0.68%	-0.29%
Real Final Sales	4.01%	3.17%	-0.95%	3.84%	3.02%	1.47%	2.05%	1.86%	2.67%	1.35%	2.45%

Summary and Commentary

There are a number of pros and cons in this revision:

-- As mentioned last month, at face value these kinds of growth numbers arguably strengthen the Fed's rationale to ex
forms of stimulus. An economy that is reported to be growing at 3.89% is presumably healthy enough to need very li
banking officials.

-- Rapidly changing dollar-based commodity prices (and more specifically energy prices) are likely playing havoc wi
net import/export data, both of which changed materially in this revision. While one might expect inventories to be v
variation of book-value FIFO accounting logic, they are in fact additionally impacted by an "inventory valuation adju
price changes from a "Fisher formula" (that according to the BEA's notes "incorporates weights from two adjacent qu
adjusted for consistency to the annual indexes before percent changes are calculated") when converting inventory val
this reason rapidly changing dollar based price levels can cause "real" inventories and net import/export data to fluctu
remain relatively constant -- providing temporary "noise" that duly reverses in subsequent quarters.

-- From a global perspective, this reported growth is extraordinary. Again at face value, this report shows an economy falling dollar-based commodity prices) from softening global economies.

-- That said, consumers are not spending as if the US economy is healthy and sustainable. Consumers generated well growth even though they are still over two-thirds of the economy. And half of the previously reported growth in real vanished in this revision -- explaining to some extent why consumers have remained wary.

-- The impact of falling energy prices will certainly carry forward into the fourth quarter. The $.36 per gallon drop in during the 3rd quarter alone should have freed up over $50 billion in annualized consumer cash -- transforming it fro leftover "pocket money." And since September 30th gasoline prices have dropped another $.52, adding an additional pockets. Total aggregate discretionary pocket cash available to households in the 4th quarter could amount to as muc consumer goods spending.

-- What then happens to that free cash is critical to the economy. If consumers are in a mood to spend, the money wil holiday sales -- even if from a GDP standpoint that incremental holiday spending is actually a zero sum exercise (sav simply transferred into much hyped discretionary holiday retail sales). But the kicker is simply this: if consumers rem increase even further and total consumer spending (discretionary and non-discretionary) might actually decrease.

We are likely living an ancient Chinese curse: the fourth quarter should, at the very least, be "interesting."
