Consumer Metrics Institute News

December 23, 2014: BEA Revises 3rd Quarter 2014 GDP Growth Upwards Again to 4.96% Annualized Rate

(Web page version is here)

In their third estimate of the US GDP for the third quarter of 2014, the Bureau of Economic Analysis (BEA) reported
an astounding +4.96% annualized rate, up an additional +1.07% from their prior estimate for the 3rd quarter and now
healthy 4.59% annualized growth rate registered during the second quarter.

This revision contained improved numbers for nearly every segment of the economy. The largest gains from the prev
consumer expenditures for services (+0.61%, mostly in healthcare) and corporate non-residential investment (+0.24%
intellectual property). Consumer expenditures for goods and inventories each added another +0.09% to the headline n
spending and imports added +0.04% each. Only exports weakened, softening their contribution to the headline numbe
positive contribution from imports).

Despite the increased consumer spending, households actually lost disposable income in this revision -- losing yet an
capita disposable income (now reported to be $37,496 per annum). This is now down a full $373 per year from the 4t
spending growth reported above came exclusively from reduced household savings, which dropped yet another -0.3%

As mentioned last month, softening energy prices play a major role in this report, since during the 3rd quarter dollar-
(and have even accelerated their dive since). US "at the pump" gasoline prices fell 9.8% quarter-to-quarter (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 dis-inflationary at a -0.10% (annualized
by the Billion Prices Project (BPP -- which arguably reflected the real experiences of American households) was slig
(annualized).

Yet for this report the BEA still assumed an effective positive annualized quarterly inflation of 1.39%. Over reported
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 an astronomical 6.52% annualized rate. If we were to use just the BPP data to adjust for inf
would have been growing even faster, at a 6.60% annualized rate.

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

-- The headline contribution from consumer expenditures for goods was +1.06% (up +0.09% from the previous estim
prior quarter).

-- The contribution made by consumer services spending to the headline surged to +1.15% (up +0.61% from the prev
0.42% reported last quarter). The combined consumer contribution to the headline number by consumers was 2.21%,

-- Commercial private fixed investments provided +1.21% of the headline number (down -0.24% from the 1.45% in t
positive growth is nearly all non-residential. The increases shown in this report came almost equally from spending o
intellectual property category.

-- Inventories subtracted only -0.03% from the headline number (and down a full -1.45% from the prior quarter).

-- Governmental spending added +0.80% to the headline. The growth in Federal spending was probably spending pul a result of fiscal year-end budgetary maneuvers -- and is therefore also likely to reverse in 4Q-2014.

-- Exports are now reported to be adding 0.61% to the headline growth rate (down -0.04% from the previous estimate
quarter).

-- Imports added +0.16% to the headline number (up +0.04% from the previous estimate, and up +1.93% from the pr

-- The annualized growth rate for the "real final sales of domestic product" is now reported to be 4.99% (up +0.98% f
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 $29 per year. The ne
growth rate of 1.25%. Real disposable income is still down a material -$373 per year from the fourth quarter of 2012
and it is up only 2.23% in total since the second quarter of 2008 -- a miserable 0.35% annualized growth rate over the

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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%	+	18.2%	+
Contribution to GDP Growth %	4.96%	=	2.21%	+	1.18%	+	0.80%	+

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"

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	4.96%	4.59%	-2.11%	3.50%	4.51%	1.77%	2.75%	0.06%	2.48%	1.62%	2.25%
Consumer Goods	1.06%	1.33%	0.23%	0.83%	0.80%	0.30%	1.35%	0.67%	0.74%	0.29%	1.06%
Consumer Services	1.15%	0.42%	0.60%	1.69%	0.59%	0.93%	1.11%	0.65%	0.58%	0.57%	0.81%
Fixed Investment	1.21%	1.45%	0.03%	0.95%	1.01%	0.74%	0.42%	0.96%	0.45%	0.61%	1.24%
Inventories	-0.03%	1.42%	-1.16%	-0.34%	1.49%	0.30%	0.70%	-1.80%	-0.19%	0.27%	-0.20%
Government	0.80%	0.31%	-0.15%	-0.71%	0.04%	0.04%	-0.75%	-1.20%	0.52%	-0.08%	-0.56%
Exports	0.61%	1.43%	-1.30%	1.30%	0.67%	0.82%	-0.12%	0.19%	0.28%	0.64%	0.19%
Imports	0.16%	-1.77%	-0.36%	-0.22%	-0.09%	-1.36%	0.04%	0.59%	0.10%	-0.68%	-0.29%
Real Final Sales	4.99%	3.17%	-0.95%	3.84%	3.02%	1.47%	2.05%	1.86%	2.67%	1.35%	2.45%

Summary and Commentary

The puzzle in these numbers lies in the huge discrepancy between the reported face value of the economy's growth (n
at least two quarters) and the continued public proclamations from the central bankers that the economy requires furth
in the form of extraordinarily low interest rates.

There are several points to ponder:

-- What does the Federal Reserve know that is either missed by (or not yet captured in) these numbers?

-- Is increased consumer spending on non-discretionary healthcare (at the cost of raiding household savings) really go
real household disposable income continues to shrink, who exactly is benefiting from the reported growth?

-- Since no other major developed country has credible growth data anywhere near the 5% ball park, how can US eco
outlier over an extended period of time?

There are at lease a few obvious and plausible answers to the above questions:

-- The Fed knows that these numbers misrepresent the true health of the economy -- either now or in the near future.

-- US households (especially at the median) are not participating meaningfully in the reported growth -- which is prob on the far side of the "wealth divide."

-- The US is benefiting globally (in an almost predatory fashion) from having the strongest of currencies and the safe

Unfortunately, the latter two answers carry with them destabilizing social consequences that are far worse (internally
possibility of yet another economic slowdown -- currently utterly unforeseen by the BEA.

From our perspective we actually hope that the Fed knows far more than is evident in this latest happy BEA report.