Consumer Metrics Institute News

February 27, 2015: BEA Revises 4th Quarter 2014 GDP Growth Downward to 2.18%

(Web page version is here)

In their second estimate of the US GDP for the fourth quarter of 2014, the Bureau of Economic Analysis (BEA) repo
+2.18% annualized rate, down roughly a half percent (-0.46%) from the +2.64% previously reported and down -2.78
quarter.

The downward revisions were in several of its components: lower inventory growth removed -0.70% from the headli
spending removed another -0.19%, and imports took yet another -0.19%.

Consumer services spending was revised upward +0.15%, and non-residential fixed investment was reported to be +(

Real annualized per capita disposable income was revised downward by -$33 (now reported to be $37,742 per annum
quarter of 2012. The household savings rate improved +0.1% for the quarter to 4.7%.

As mentioned last month, plunging energy prices during the quarter were likely playing havoc with many of the num
prices fell 33% quarter-to-quarter -- pushing all consumer oriented inflation indexes firmly into negative territory. Du
through December) the seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (BLS) was solid
rate, and the price index reported by the Billion Prices Project (BPP -- which arguably more fully reflected the "at the
significantly more dis-inflationary, dropping a full -2.14% quarter-to-quarter (an astounding -8.30% annualized rate c

Yet for this report the BEA still assumed a very mildly dis-inflationary annualized deflator of only -0.14%. The dispa
"deflators" raises some serious consistency issues. Over reported inflation (or under reported dis-inflation) will result
BEA's "nominal" numbers were corrected for inflation using the line-item appropriate BLS CPI-U and PPI indexes, t
at an implausibly high 6.52% annualized rate. Clearly the BEA's deflator is troubling, but using the more reasonable c
growth rates when applied to the BEA's nominal data -- suggesting that the BEA's initial nominal data may be more c
deflators can handle.

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

-- The headline contribution from consumer expenditures for goods was +1.01% (down -0.19% from the prior estima

-- The contribution made by consumer services spending to the headline increased to +1.82% (up +0.15% from the pr
contribution to the headline number was 2.83%, down -0.04% from the prior estimate.

-- Commercial private fixed investments provided +0.71% of the headline number (up +0.34% from the previous rep
3rd quarter), and this drop was nearly all in heavy equipment (industrial and transportation). The reported growth can
intellectual property.

-- Inventories contributed +0.12% to the headline number (down a full -0.70% from the prior estimate).

-- Governmental spending removed -0.32% from the headline (up +0.08% from the previous report but down -1.12%
month, the prior quarter's growth in Federal spending was in fact entirely spurious: spending pulled forward from the
budgetary maneuvers.

-- Exports are now reported to be contributing +0.42% to the headline growth rate (up +0.05% from the previous esti

-- Imports subtracted -1.58% from the headline number (down -1.74% from the prior quarter).

-- The annualized growth rate for the "real final sales of domestic product" is now reported to be +2.06% (down -2.93
"bottom line" measurement of the economy.

-- And as mentioned above, real per-capita annual disposable income was revised downward by -$33 per year. The ne
rate of +2.95%. Real disposable income is still down -$90 per year from the fourth quarter of 2012 (before the FICA
total since the second quarter of 2008 -- a pathetic +0.44% annualized growth rate over the past 6 and a half 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 + (e

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

GDP Components Table

	Total GDP	=	C	+	I	+	G
Annual $ (trillions)	$17.7	=	$12.1	+	$3.0	+	$3.2
% of GDP	100.0%	=	68.4%	+	16.7%	+	18.0%
Contribution to GDP Growth %	2.18%	=	2.83%	+	0.83%	+	-0.32%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best und
out the component contributions in more detail and over time. In the table below we have split the "C" component int
into fixed investment and inventories, separated exports from imports, added a line for the BEA's "Real Final Sales o
columns with the most current to the left **:**

Quarterly Changes in % Contributions to GDP

	4Q-2014	3Q-2014	2Q-2014	1Q-2014	4Q-2013	3Q-2013	2Q-2013	1Q-2013	4Q-2012	3Q-2012	2Q-2012
Total GDP Growth	2.18%	4.96%	4.59%	-2.11%	3.50%	4.51%	1.77%	2.75%	0.06%	2.48%	1.62%
Consumer Goods	1.01%	1.06%	1.33%	0.23%	0.83%	0.80%	0.30%	1.35%	0.67%	0.74%	0.29%
Consumer Services	1.82%	1.15%	0.42%	0.60%	1.69%	0.59%	0.93%	1.11%	0.65%	0.58%	0.57%
Fixed Investment	0.71%	1.21%	1.45%	0.03%	0.95%	1.01%	0.74%	0.42%	0.96%	0.45%	0.61%
Inventories	0.12%	-0.03%	1.42%	-1.16%	-0.34%	1.49%	0.30%	0.70%	-1.80%	-0.19%	0.27%
Government	-0.32%	0.80%	0.31%	-0.15%	-0.71%	0.04%	0.04%	-0.75%	-1.20%	0.52%	-0.08%
Exports	0.42%	0.61%	1.43%	-1.30%	1.30%	0.67%	0.82%	-0.12%	0.19%	0.28%	0.64%
Imports	-1.58%	0.16%	-1.77%	-0.36%	-0.22%	-0.09%	-1.36%	0.04%	0.59%	0.10%	-0.68%
Real Final Sales	2.06%	4.99%	3.17%	-0.95%	3.84%	3.02%	1.47%	2.05%	1.86%	2.67%	1.35%

Summary and Commentary

The revisions in this report are relatively minor, and probably should be considered just "noise" in the context of an e
our observations about this report are:

-- At face value, the +2.06% "bottom line" Real Final Sales growth rate seems plausible for the US economy during t

-- The reported strong growth in fixed investment occurred primarily in two areas: IT spending and the recently adde
property."

-- Rampant or rouge deflators are likely as much a factor in the headline number as real growth.

Looking forward, we are often told that "bad weather" is a major factor in first quarter economic data -- keeping shop
work. Given the quarter-to-quarter weakening already evident in the GDP numbers, the first quarter probably wasn't g
the recent record snowfalls. It could now be getting just as nasty as the weather itself.