

# Consumer Metrics Institute News

## March 27, 2015: BEA Leaves 4th Quarter 2014 GDP Growth Essentially Unchanged at 2.22%

(Web page version is [here](#))

In their third estimate of the US GDP for the fourth quarter of 2014, the Bureau of Economic Analysis (BEA) reported an annualized rate, effectively unchanged (+0.04%) from the +2.18% previously reported and down -2.74% from the growth rate reported in the 3rd quarter of 2014.

Despite the very minor change in the headline number, there were larger (but mostly offsetting) revisions to the components. Improving exports were the most significant revision -- adding +0.17% to the headline number. Personal consumption services (+0.09%) improved slightly, while spending on fixed investments remained mostly unchanged (+0.01%). On the other hand, government spending was yet again the largest revision -- this time removing -0.22% from the headline growth rate. Growth in government spending was lower.

Real annualized per capita disposable income was revised downward by -\$13 (now reported to be \$37,729 per annum) from the prior quarter of 2012. The household savings rate dropped -0.1% in this revision to 4.6%, down from 4.8% in the prior quarter.

As mentioned last month, plunging energy prices during the fourth quarter of 2014 were likely impacting many of the inflation indexes. Gasoline prices fell 33% quarter-to-quarter -- pushing all consumer oriented inflation indexes firmly into negative territory. In October through December (the seasonally adjusted CPI-U index published by the Bureau of Labor Statistics (BLS) and the (annualized) rate, and the price index reported by the Billion Prices Project (BPP -- which arguably more fully reflects the prices paid by households) was significantly more dis-inflationary, dropping a full -2.14% quarter-to-quarter (an eye opening -8.30% from the prior quarter).

Yet for this report the BEA assumed a very mildly inflationary annualized deflator of +0.16%. Over reported inflation in the 3rd quarter and if the BEA's "nominal" numbers were corrected for inflation using the line-item appropriate BLS CPI-U and PPI numbers, the headline number would be growing at an implausibly high 6.84% annualized rate. Clearly there is a major disconnect between the inflation numbers used by the BEA and those used by its sister agency, the BLS.

Among the notable items in the report :

- The headline contribution from consumer expenditures for goods was +1.07% (up +0.06% from the prior estimate).
- The contribution made by consumer services spending to the headline increased to +1.91% (up +0.09% from the prior estimate) adding +0.88% all by itself to the headline, up +0.35% in this revision. The combined consumer contribution to the headline was +2.98% (up +0.11% from the prior estimate).
- Commercial private fixed investments provided +0.72% of the headline number -- essentially unchanged (+0.01% from the 1.21% in the 3rd quarter), and this drop was nearly all in heavy equipment (industrial and transportation). The contribution from IT spending and intellectual property was +0.01%.
- Inventories contributed -0.10% to the headline number (down another -0.22% from the previous estimate, while being +0.02% in the 3rd quarter (-0.07%). This number had swung wildly in the prior estimates, only to revert ultimately to "practically unchanged" as energy prices initially created phantom inventory valuation fluctuations that have finally been suppressed.
- Governmental spending removed -0.35% from the headline (down -0.03% from the previous report but down a full -0.32% from the 3rd quarter's (3Q-2014) remarkable growth in Federal spending was in fact entirely fictitious: spending pulled forward from the 2nd quarter).

year-end budgetary shenanigans -- a repetitive annual distortion that the BEA utterly fails to handle within its "seasonal" adjustments.

- Exports are now reported to be contributing +0.59% to the headline growth rate (up +0.17% from the previous estimate).
- Imports subtracted -1.62% from the headline number (down -1.78% from the prior quarter).
- The annualized growth rate for the "real final sales of domestic product" is now reported to be +2.32% (down -2.67% from the previous estimate) -- the "bottom line" measurement of the economy.
- And as mentioned above, real per-capita annual disposable income was revised downward by another -\$13 per year from the previous estimate, resulting in a revised growth rate of +2.80%. Real disposable income is still down -\$103 per year from the fourth quarter of 2012 (before the recession) -- a pathetic +2.87% in aggregate since the second quarter of 2008 -- a pathetic +0.44% annualized growth rate over the past 6 years. The increase in consumer spending are coming from decreased savings and increased personal debt -- and not from improving disposable income.

### The Numbers, As Revised

As a quick reminder, the classic definition of the GDP can be summarized with the following equation :

$$\text{GDP} = \text{private consumption} + \text{gross private investment} + \text{government spending} + (\text{exports} - \text{imports})$$

or, as it is commonly expressed in algebraic shorthand :

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X}-\text{M})$$

In the new report the values for that equation (total dollars, percentage of the total GDP, and contribution to the final growth rate) are:

### GDP Components Table

|                                     | <b>Total GDP</b> | = | <b>C</b> | + | <b>I</b> | + | <b>G</b> | + | <b>(X-M)</b> |
|-------------------------------------|------------------|---|----------|---|----------|---|----------|---|--------------|
| <b>Annual \$ (trillions)</b>        | \$17.7           | = | \$12.1   | + | \$2.9    | + | \$3.2    | + | 0.0          |
| <b>% of GDP</b>                     | 100.0%           | = | 68.5%    | + | 16.6%    | + | 18.0%    | + | 0.0%         |
| <b>Contribution to GDP Growth %</b> | 2.22%            | = | 2.98%    | + | 0.62%    | + | -0.35%   | + | 0.00%        |

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best understood by looking out the component contributions in more detail and over time. In the table below we have split the "C" component into fixed investment and inventories, separated exports from imports, added a line for the BEA's "Real Final Sales of Domestic Product" (RFP) and

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 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Total GDP Growth</b>  | 2.22%   | 4.96%   | 4.59%   | -2.11%  | 3.50%   | 4.51%   | 1.77%   | 2.75%   | 0.06%   | 2.48%   | 1.62%   |
| <b>Consumer Goods</b>    | 1.07%   | 1.06%   | 1.33%   | 0.23%   | 0.83%   | 0.80%   | 0.30%   | 1.35%   | 0.67%   | 0.74%   | 0.29%   |
| <b>Consumer Services</b> | 1.91%   | 1.15%   | 0.42%   | 0.60%   | 1.69%   | 0.59%   | 0.93%   | 1.11%   | 0.65%   | 0.58%   | 0.57%   |
| <b>Fixed Investment</b>  | 0.72%   | 1.21%   | 1.45%   | 0.03%   | 0.95%   | 1.01%   | 0.74%   | 0.42%   | 0.96%   | 0.45%   | 0.61%   |
| <b>Inventories</b>       | -0.10%  | -0.03%  | 1.42%   | -1.16%  | -0.34%  | 1.49%   | 0.30%   | 0.70%   | -1.80%  | -0.19%  | 0.27%   |
| <b>Government</b>        | -0.35%  | 0.80%   | 0.31%   | -0.15%  | -0.71%  | 0.04%   | 0.04%   | -0.75%  | -1.20%  | 0.52%   | -0.08%  |
| <b>Exports</b>           | 0.59%   | 0.61%   | 1.43%   | -1.30%  | 1.30%   | 0.67%   | 0.82%   | -0.12%  | 0.19%   | 0.28%   | 0.64%   |
| <b>Imports</b>           | -1.62%  | 0.16%   | -1.77%  | -0.36%  | -0.22%  | -0.09%  | -1.36%  | 0.04%   | 0.59%   | 0.10%   | -0.68%  |
| <b>Real Final Sales</b>  | 2.32%   | 4.99%   | 3.17%   | -0.95%  | 3.84%   | 3.02%   | 1.47%   | 2.05%   | 1.86%   | 2.67%   | 1.35%   |

### Summary and Commentary

Any revisions seen in this report (like those in its predecessor) are mainly noise. The lack of material new information is the larger issues evident in recent GDP reporting:

-- Inventory fluctuations (whether real or imaginary) continue to play havoc with the headline number. An accurately measured physical inventory levels should have nearly zero sum changes over year-long time spans. It would be very useful to know if inventory is being fully consumed or merely inventoried. But the BEA's current inventory methodologies and data are counterproductive. Inventory changes that are in fact the artifacts of rogue "deflators" impacting inventory valuations -- and not actual changes in useful physical inventory data is so late arriving that it gets finalized only in the annual July revisions -- long after any business still cares.

-- The discrepancies between the BEA's and the BLS's inflation reporting is staggering. It feels like a sporting event where each side is reflecting their own political agendas. Can't we just have one set of "best practice" Federal inflation data that has transparent primary agenda items?

-- Speaking of deflators, clearly the BEA's are troubling. But using more reasonable deflators from the BLS or other sources would give more accurate rates when applied to the BEA's nominal data. This in turn suggests that the BEA's initial nominal data may be more distorted than reasonable deflators can handle -- which perhaps the BEA is tacitly admitting by using unreasonable deflators.

-- Can't the BEA include Federal fiscal year-end budgetary shenanigans in its otherwise impenetrably opaque "seasonally adjusted" calendar quarter (fourth fiscal quarter) Federal spending always be an annual upside surprise?

-- Should economic data in the 21st century still be reported using the methodologies and calendars developed by Woodrow Wilson (and later Franklin D. Roosevelt) in 1934? Can't we do better than quarterly data published monthly? With the first "estimate" more accurately align with media expectations"? And with the second and third estimates actually just place holders that have been gotten from the BEA expects will ultimately show up in the next annual revision?

It all brings to mind Ralph Waldo Emerson's foolish consistency -- a consistency that conveniently maintains a method.

That said, stay tuned for the next report (covering 1Q-2015), which could be far more interesting.

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