Consumer Metrics Institute News

April 29, 2015: BEA Reports Weak 1st Quarter 2015 GDP Growth at 0.25%

(Web page version is here)

In their first estimate of the US GDP for the first quarter of 2015, the Bureau of Economic Analysis (BEA) reported t economy was growing at a +0.25% annualized rate, down sharply (-1.97%) from the +2.22% growth rate recorded fo quarter. And according to the "real final sales of domestic product" (BEA's very own "bottom line" for the economy) actually shrank during the quarter, contracting at about a half percent (-0.49%) annualized rate, down -2.81% from la +2.32%. The difference between the headline number and "final sales" is inventory growth, which is excluded from t line" figure.

Nearly all of the critical lines items in the report were worse than during the previous quarter. Consumer spending fo a minuscule +0.05% annualized rate (down over a percent from the +1.07% growth during the fourth quarter of 2014 consumer spending for services also showed weaker growth at +1.26% (with most of that growth in non-discretionary housing and utilities), down some -0.65% from the +1.91% reported for 4Q-2014. Fixed investment was in outright c (-0.40%, down over a percent from the +0.72% growth recorded for the fourth quarter). And the worst performance v by exports, which shrank at a -0.96% annualized rate -- down -1.55% from the prior quarter's rate, and clearly hamm dollar.

Inventory growth was the bright spot in this report (per the BEA's logic that ballooning inventories are mathematicall GDP and therefore good for the economy), contributing +0.74% to the headline number. The flip side of the strong d helped imports to subtract less from the headline number (-0.29%, compared with -1.62% in 4Q-2014). And governm contracted at a slower -0.15% annualized rate, thereby boosting the headline number by +0.20%.

Real annualized per capita disposable income increased by a significant \$506 (now reported to be \$38,235 per annum largest quarter to quarter growth since the fourth quarter of 2012, and it is the first time that real annualized per capita income has reported cumulative net growth over the nine quarters since then. The household savings rate soared +0.9 (once again, the highest rate since the fourth quarter of 2012), which accounts to a large extent for the reported sluggi spending.

During the first quarter of 2015 (i.e., from January through March) the seasonally adjusted CPI-U index published by Labor Statistics (BLS) was dis-inflationary at a -0.92% (annualized) rate. For this report the BEA assumed a very mi dis-inflationary annualized deflator of -0.11%. Under reported dis-inflation will result in a more pessimistic headline BEA's "nominal" numbers were corrected for inflation using the line-item appropriate BLS CPI-U and PPI indexes, t would be reported to be growing at a much higher 3.10% annualized rate. Interestingly, during the same quarter the f responsive Billion Prices Project (BPP) recorded mild positive inflation. If the BPP inflation metric was used to defla BEA data the economy could be shown to be contracting at a more than -1.50% annualized rate.

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

-- The headline contribution from consumer expenditures for goods was +0.05% (down -1.02% from the prior quarte

-- The contribution made by consumer services spending to the headline decreased to +1.26% (down -0.65% from th quarter). Healthcare spending provided about half of services growth. The combined consumer contribution to the he was 1.31%, down -1.67% from the prior quarter.

-- Contracting commercial private fixed investments removed -0.40% from the headline number -- down over a full p
(-1.12%) from the fourth quarter of 2014. This drop occurred in spending for structures, industrial equipment and IT
Some growth was reported in transportation equipment and intellectual property.

-- Inventory growth added +0.74% to the headline number (up +0.84% from the previous quarter). Once again it is in
that this number has logically and historically been nearly zero-sum over extended time periods, and future mean rev
zero sum should be expected.

-- Governmental spending removed -0.15% from the headline (up +0.20% from the -0.35% for the previous quarter).
contraction was largely the result of decreased state and local spending on infrastructure.

-- Exports are now reported to be subtracting -0.96% from the headline growth rate (down -1.55% from the previous

-- Imports subtracted substantially less from the headline number (-0.29%) than during the prior quarter (-1.62%) -- a
consequence of the stronger dollar.

-- The "real final sales of domestic product" is now contracting at a -0.49% annualized rate. This is the BEA's "botto
measurement of the economy and it excludes the reported inventory growth.

-- And as mentioned above, real per-capita annual disposable income grew substantially during the quarter (up $506
quarter-to-quarter). The new number represents an annualized growth rate of +5.47%. But it is up only +4.25% in ag
the second quarter of 2008 -- an annualized +0.62% growth over the past 26 quarters. The reported softening growth
spending is a consequence of a significant increase in household savings -- i.e., most of that $506 went into savings.

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 + (exports - impor

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
growth number) are as follows **:**

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M)
Annual $ (trillions)	$17.7	=	$12.1	+	$3.0	+	$3.2	+	$-0.5
% of GDP	100.0%	=	68.4%	+	16.7%	+	17.9%	+	-3.0%
Contribution to GDP Growth %	0.25%	=	1.31%	+	0.34%	+	-0.15%	+	-1.25%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best unc the table below, which breaks out the component contributions in more detail and over time. In the table below we ha component into goods and services, split the "I" component into fixed investment and inventories, separated exports f added a line for the BEA's "Real Final Sales of Domestic Product" and listed the quarters in columns with the most c left **:**

Quarterly Changes in % Contributions to GDP

	1Q-2015	4Q-2014	3Q-2014	2Q-2014	1Q-2014	4Q-2013	3Q-2013	2Q-2013	1Q-2013	4Q-2012	3Q-2012
Total GDP Growth	0.25%	2.22%	4.96%	4.59%	-2.11%	3.50%	4.51%	1.77%	2.75%	0.06%	2.48%
Consumer Goods	0.05%	1.07%	1.06%	1.33%	0.23%	0.83%	0.80%	0.30%	1.35%	0.67%	0.74%
Consumer Services	1.26%	1.91%	1.15%	0.42%	0.60%	1.69%	0.59%	0.93%	1.11%	0.65%	0.58%
Fixed Investment	-0.40%	0.72%	1.21%	1.45%	0.03%	0.95%	1.01%	0.74%	0.42%	0.96%	0.45%
Inventories	0.74%	-0.10%	-0.03%	1.42%	-1.16%	-0.34%	1.49%	0.30%	0.70%	-1.80%	-0.19%
Government	-0.15%	-0.35%	0.80%	0.31%	-0.15%	-0.71%	0.04%	0.04%	-0.75%	-1.20%	0.52%
Exports	-0.96%	0.59%	0.61%	1.43%	-1.30%	1.30%	0.67%	0.82%	-0.12%	0.19%	0.28%
Imports	-0.29%	-1.62%	0.16%	-1.77%	-0.36%	-0.22%	-0.09%	-1.36%	0.04%	0.59%	0.10%
Real Final Sales	-0.49%	2.32%	4.99%	3.17%	-0.95%	3.84%	3.02%	1.47%	2.05%	1.86%	2.67%

Summary and Commentary

These numbers show materially weaker economic growth within the US. The headline number is positive only becau ballooning inventories, and not because of strong commercial investments or organic growth in consumer spending fo goods or services. Exports were hammered, and the continued strength of the dollar does not bode well for exports m

What's worse is that the BEA is famously incapable of accurately monitoring a weakening economy in "real time." T

eventually get it right, but only several years after the fact. For example, consider the BEA's constantly changing num
first quarter of 2008 -- from the +0.6% growth shown in an April 30th "real time" report (which, incidentally, grew to
the next two months) to a disastrous -2.7% contraction after due consideration and massive revisions (some 64 month

BEA's Changing View of First Quarter 2008 GDP

Reported Growth Rate	Report Date	Months Lag
+0.6%	April 30, 2008	1
+1.0%	June 26, 2008	3
-0.7%	July 31, 2009	16
-1.8%	July 29, 2011	40
-2.7%	July 31, 2013	64

We are not suggesting that the first quarter of 2015 is as bad as the first quarter of 2008. We are suggesting that we m
exactly how bad it was for some time to come.