Consumer Metrics Institute News

May 29, 2015: BEA Reveals that 1st Quarter 2015 GDP Shrank at -0.75%

(Web page version is here)

In their second estimate of the US GDP for the first quarter of 2015, the Bureau of Economic Analysis (BEA) reporte economy was contracting at a -0.75% annualized rate, down a full percent from the +0.25% estimated last month, and (-2.97%) from the +2.22% growth rate recorded for the prior quarter. And according to the "real final sales of domest (BEA's very own "bottom line" for the economy), the economy shrank at more than a percent (-1.08%) during the qu -3.40% from last quarter's +2.32%.

A look at the details provides little comfort. The already anemic consumer spending on goods improved a smidgen to annualized growth, and fixed commercial investment also improved -- although only to a "less bad" contraction rate o -0.40%). All other changes made the report awash with red: imports were revised downward significantly (a -0.58% c inventory growth was weaker by -0.41%, consumer spending on services dropped -0.13%, government spending was and the contribution from exports declined -0.07%.

Real annualized per capita disposable income was also revised downward by -$25 (now reported to be $38,210 per an Meanwhile, the household savings rate was unchanged at 5.5% (the highest rate since the fourth quarter of 2012), wh a large extent for the continued sluggish consumer spending.

For this report the BEA assumed a mild dis-inflationary annualized deflator of -0.12%. Interestingly, during the same more responsive Billion Prices Project (BPP) recorded mild positive inflation. If the BPP inflation metric was used to nominal BEA data the economy could be shown to be contracting at a more than -2.69% annualized rate.

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

-- The headline contribution from consumer expenditures for goods was +0.10% (down -0.97% from the prior quarte

-- The contribution to the headline from consumer services spending decreased to +1.13% (down -0.78% from the pr Healthcare spending alone provided +0.60% to the headline number. The combined consumer contribution to the hea was 1.23%, down -1.75% from the prior quarter.

-- Contracting commercial private fixed investments removed -0.21% from the headline number -- down nearly a full (-0.93%) 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 +0.33% to the headline number (up +0.43% 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 reve zero sum should be expected.

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

-- Exports are suffering from the strong dollar, and are now reported to be subtracting -1.03% from the headline grow -1.62% from the previous quarter).

-- Imports subtracted substantially less from the headline number (-0.87%) 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 -1.08% annualized rate. This is the BEA's "bottom
measurement of the economy and it excludes the reported inventory growth.

-- And as mentioned above, real per-capita annual was revised downward in this report, but it is still up $432 per year
quarter-to-quarter. The new number represents an annualized growth rate of +4.65%. But it is up only +4.18% in agg
second quarter of 2008 -- an annualized +0.61% growth over the past 26 quarters. The reported softening growth in c
spending is a consequence of a significant increase in household savings -- i.e., most of that $432 quarter-to-quarter g
into savings.

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 + (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	+	$2.9	+	$3.2	+	$-0.6
% of GDP	100.0%	=	68.6%	+	16.7%	+	17.9%	+	-3.2%
Contribution to GDP Growth %	-0.75%	=	1.23%	+	0.12%	+	-0.20%	+	-1.90%

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	-0.75%	2.22%	4.96%	4.59%	-2.11%	3.50%	4.51%	1.77%	2.75%	0.06%	2.48%
Consumer Goods	0.10%	1.07%	1.06%	1.33%	0.23%	0.83%	0.80%	0.30%	1.35%	0.67%	0.74%
Consumer Services	1.13%	1.91%	1.15%	0.42%	0.60%	1.69%	0.59%	0.93%	1.11%	0.65%	0.58%
Fixed Investment	-0.21%	0.72%	1.21%	1.45%	0.03%	0.95%	1.01%	0.74%	0.42%	0.96%	0.45%
Inventories	0.33%	-0.10%	-0.03%	1.42%	-1.16%	-0.34%	1.49%	0.30%	0.70%	-1.80%	-0.19%
Government	-0.20%	-0.35%	0.80%	0.31%	-0.15%	-0.71%	0.04%	0.04%	-0.75%	-1.20%	0.52%
Exports	-1.03%	0.59%	0.61%	1.43%	-1.30%	1.30%	0.67%	0.82%	-0.12%	0.19%	0.28%
Imports	-0.87%	-1.62%	0.16%	-1.77%	-0.36%	-0.22%	-0.09%	-1.36%	0.04%	0.59%	0.10%
Real Final Sales	-1.08%	2.32%	4.99%	3.17%	-0.95%	3.84%	3.02%	1.47%	2.05%	1.86%	2.67%

Summary and Commentary

We had trouble writing the headline for this report. We ultimately chose the more politically neutral phrase "BEA Re lieu of the probably more accurate "BEA Admits that ..." for the headline. Cynically minded observers have often cla BEA manipulates the first estimate for any quarter to lead future expectations in the right direction -- while not fully pending bad news. Although last month's first estimate was just barely positive, it was far enough below the expectat economists to send a clear warning that even worse numbers will soon be forthcoming. It just seems that the full truth for full initial disclosure.

It reminds us of the Lucy Ricardo character never divulging the full extent of her latest disaster when first asked. It is Ricky inevitably says "Lucy, you have some 'splaining to do" that the full truth is revealed.

We should expect (dare we say "demand"?) better transparency from a Federal agency that is tasked with tracking the economy -- an agency which, unlike Lucy, is not itself culpable for the bad news. The BEA explains that they are wo largely incomplete data some 30 days after the end of the quarter (a situation which may have been acceptable in 193 arguably unacceptable in 2015 -- an era of microsecond transactions and real-time settlements). But even in a state of data (for which they **are** culpable) they certainly know the tendencies in their sadly lagging data -- and therefore they capable of better extrapolating where things actually were at the end of the quarter. Instead they seem to take the hap assumptions available, knowing that they have months (and ultimately years) to finally get the view in the rear mirror Unfortunately, economic decisions are often made from that badly distorted rear-view mirror.

Perhaps the most discouraging aspect of this report is the extent to which many economists were surprised. Perhaps i have "some 'splaining to do."
