Consumer Metrics Institute News

June 24, 2015: BEA Revises 1st Quarter 2015 GDP Contraction to -0.17%

(Web page version is here)

In their third estimate of the US GDP for the first quarter of 2015, the Bureau of Economic Analysis (BEA) reported economy was contracting at a -0.17% annualized rate, up over a half percent from the -0.75% estimated only last mor down sharply (-2.39%) from the +2.22% growth rate recorded for the prior quarter. And according to the "real final s domestic product" (BEA's very own "bottom line" for the economy), the economy shrank at a -0.62% rate during the -2.94% from last quarter's +2.32%.

Nearly all of the BEA's major categories of economic activity had their contributions to the headline number revised exports were tweaked upward by +0.24%, fixed investment +0.16%, consumer spending on goods +0.12%, inventori governmental spending +0.09%, and consumer spending on services +0.08%. Only imports rained on the upward rev subtracting an additional -0.23% from the headline number.

Real annualized per capita disposable income was unchanged at $38,210 per annum. Meanwhile, the household savin decreased slightly to 5.4%, accounting for the modest upward revisions to consumer spending.

For this revision the BEA assumed a very mild dis-inflationary annualized deflator of -0.06%. Interestingly, during th the far more responsive Billion Prices Project (BPP) recorded positive annualized inflation of +1.56%. If the BPP inf was used to deflate the nominal BEA data the economy could be shown to be contracting at a more than -1.79% annu

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

-- The headline contribution from consumer expenditures for goods was +0.22% (down -0.85% from the prior quarte

-- The contribution to the headline from consumer services spending increased to +1.21% (while still down -0.70% fr previous quarter). Healthcare spending alone provided +0.62% to the headline number. The combined consumer cont headline number was 1.43%, down -1.55% from the prior quarter.

-- Mildly contracting commercial private fixed investments removed -0.05% from the headline number -- down -0.77 fourth quarter of 2014. This drop occurred primarily in spending for commercial structures and IT equipment. Some reported in transportation equipment, residential construction and intellectual property.

-- Inventory growth added +0.45% to the headline number (up +0.55% 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 -0.11% from the headline (up +0.24% from the -0.35% for the previous quarter). contraction was entirely the result of decreased state and local spending on infrastructure.

-- Exports are suffering from the strong dollar, and are now reported to be subtracting -0.79% from the headline grow -1.38% from the previous quarter).

-- Imports subtracted more from the headline number (-1.10%) than previously reported, yet their negative impact wa during the prior quarter (-1.62%).

-- The "real final sales of domestic product" is now contracting at a -0.62% annualized rate. This is the BEA's "bottor measurement of the economy and it excludes the reported inventory growth.

-- And as mentioned above, real per-capita annual disposable income was unchanged in this report, and it is up $432 quarter-to-quarter. The reported number represents an annualized growth rate of +4.65%. But it is up only +4.18% in since the second quarter of 2008 -- an annualized +0.61% growth over the past 26 quarters.

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	+	$3.0	+	$3.2	+	$-0.6
% of GDP	100.0%	=	68.5%	+	16.7%	+	17.9%	+	-3.2%
Contribution to GDP Growth %	-0.175%	=	1.43%	+	0.40%	+	-0.11%	+	-1.89%

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 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	-0.17%	2.22%	4.96%	4.59%	-2.11%	3.50%	4.51%	1.77%	2.75%	0.06%	2.48%
Consumer Goods	0.22%	1.07%	1.06%	1.33%	0.23%	0.83%	0.80%	0.30%	1.35%	0.67%	0.74%
Consumer Services	1.21%	1.91%	1.15%	0.42%	0.60%	1.69%	0.59%	0.93%	1.11%	0.65%	0.58%
Fixed Investment	-0.05%	0.72%	1.21%	1.45%	0.03%	0.95%	1.01%	0.74%	0.42%	0.96%	0.45%
Inventories	0.45%	-0.10%	-0.03%	1.42%	-1.16%	-0.34%	1.49%	0.30%	0.70%	-1.80%	-0.19%
Government	-0.11%	-0.35%	0.80%	0.31%	-0.15%	-0.71%	0.04%	0.04%	-0.75%	-1.20%	0.52%
Exports	-0.79%	0.59%	0.61%	1.43%	-1.30%	1.30%	0.67%	0.82%	-0.12%	0.19%	0.28%
Imports	-1.10%	-1.62%	0.16%	-1.77%	-0.36%	-0.22%	-0.09%	-1.36%	0.04%	0.59%	0.10%
Real Final Sales	-0.62%	2.32%	4.99%	3.17%	-0.95%	3.84%	3.02%	1.47%	2.05%	1.86%	2.67%

Summary and Commentary

Some thoughts on an otherwise uninspiring sort of report:

-- This revision changes the sound bite for the first quarter from "material contraction" to "essentially neutral." Unfor this report is certainly nothing to get excited about (and it is still subject to significant future revisions), an essentially reading merely serves to justify further extensions of entrenched economic policies. In the sporting vernacular: no ha

-- Furthermore, extrapolating already reported 2nd quarter 2015 data into the BEA's GDP model indicates that the BE reading for 2Q-2015 growth could plausibly to be in the +2% range -- providing yet more proof that the current polic brilliantly.

-- The sound bite switches back to "material contraction" when the pesky inventory noise is filtered out.

-- Although real annualized per capita disposable income has shown a nice quarter-to-quarter improvement, that impr to develop into a legitimate trend. The numbers are even more stark when we disregard averages that have been lifted end and instead concentrate on median households -- where income is still off roughly 5% from the 2008 peak. The c "recovery" has occurred without much in the way of median household participation -- simply because median house very little direct access to the benevolence of central banking's stimulation tools.

This all begs the question: what are the differences between "neutral", "stagnant" and "Japanified"?