

Consumer Metrics Institute News

July 30, 2015: BEA Reports 2nd Quarter 2015 GDP Growing at 2.32%

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

In their first estimate of the US GDP for the second quarter of 2015, the Bureau of Economic Analysis (BEA) reported growing at a 2.32% annualized rate, up +1.68% from a **revised** +0.64% growth rate for the first quarter (and up over a contraction rate previously reported).

The revision to the first quarter's "final estimate" was accompanied by revisions to all quarters back through 2012. Overall, the BEA trimmed about a quarter of a percent (-0.22%) from previously reported growth rates. However, several quarters were -- with nearly -2.0% shaved off the growth rate for the third quarter of 2012, and another -1.5% removed from the growth rate reported for the third quarter of 2013. A table showing all of the revisions to the historic headline numbers is provided [here](#).

For the newly reported second quarter nearly all of the BEA's major categories of economic activity had positive contributions to the headline number. Consumer goods contributed +1.04% to the headline, while consumer services added +0.95%. Exports provided +0.67% (down from a revised -0.79% contraction in the prior quarter), while imports removed only -0.54% from the headline (some of which was a revised -1.10% impact in the first quarter). Fixed investment provided a positive contribution (+0.14%), as did government spending (+0.14%). Inventories were nearly unchanged (-0.08%), resulting in a +2.40% growth rate for the BEA's "bottom line" real gross domestic product.

Real annualized per capita disposable income was reported to be \$37,846, some -\$364 per year less than the previous year (down 0.96% annum). All of that downside came as a result of revisions to the prior quarter's data, which was revised downward by 0.96% (down 0.96% percent). Meanwhile, the household savings rate plunged to 4.8% -- down -0.7% from the previously reported 5.5%.

For this revision the BEA assumed an annualized deflator of 2.04%. During the same quarter (April 2015 through June 2015) recorded by BLS in their CPI-U index was 3.52%. Under estimating inflation results in optimistic growth rates, and if the headline number data was deflated using CPI-U inflation information the headline number would show a more modest +0.89% growth rate.

Among the notable items in the report :

- The headline contribution from consumer expenditures for goods was +1.04% (up +0.79% from the prior quarter).
- The contribution to the headline from consumer services increased slightly to +0.95%. The combined consumer contribution to the headline number was 1.99%, up +0.80% from the prior quarter.
- Commercial private fixed investments added +0.14% to the headline number -- down -0.38% from a revised +0.52% in the prior quarter. This drop occurred primarily in spending for commercial structures and IT equipment, while growth was reported in residential construction and intellectual property.
- Inventory contraction removed a relatively modest -0.08% from the headline number (down -0.95% from the revised +0.79% in the prior quarter).
- Governmental spending added +0.14% to the headline (up +0.15% from a revised -0.01% for the previous quarter) at the state and local level.
- Exports rebounded significantly from the prior quarter's contraction, adding +0.67% to the headline number (up +1.05% from a revised -0.79% data for the prior quarter).

-- Imports subtracted less from the headline number (-0.54%) than in the prior quarter.

-- The "real final sales of domestic product" is now growing at a +2.40% annualized rate. This is the BEA's "bottom line" for the economy and it excludes the reported minor inventory contraction.

-- And as mentioned above, real per-capita annual disposable income plunged in this report relative to previously published figures. A particular data series was severely impacted by the historic revisions. The real per-capita annual disposable income is now growing at an annualized rate of +0.45% since the second quarter of 2008 -- an annualized +0.45% growth over the past 28 quarters.

The Numbers, With Extensive Historic Revisions

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 number) are as follows :

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M)
Annual \$ (trillions)	\$17.8	=	\$12.2	+	\$3.0	+	\$3.2	+	-\$0.5
% of GDP	100.0%	=	68.4%	+	16.8%	+	17.7%	+	-2.9%
Contribution to GDP Growth %	2.32%	=	1.99%	+	0.06%	+	0.14%	+	0.13%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best understood in the table below, which breaks out the component contributions in more detail and over time. In the table below we have split the "C" component into goods and services, split the "I" component into fixed investment and inventories, separated exports from imports, and listed the "Real Final Sales of Domestic Product" and listed the quarters in columns with the most current to the left :

Quarterly Changes in % Contributions to GDP

	2Q-2015	1Q-2015	4Q-2014	3Q-2014	2Q-2014	1Q-2014	4Q-2013	3Q-2013	2Q-2013	1Q-2013	4Q-2012
Total GDP Growth	2.32%	0.64%	2.07%	4.27%	4.56%	-0.91%	3.82%	2.98%	1.11%	1.91%	0.10%
Consumer Goods	1.04%	0.25%	0.91%	0.91%	1.49%	0.25%	0.70%	0.60%	0.28%	1.39%	0.53%
Consumer Services	0.95%	0.94%	1.95%	1.42%	1.11%	0.61%	1.66%	0.57%	0.68%	0.36%	0.25%
Fixed Investment	0.14%	0.52%	0.39%	1.23%	0.87%	0.91%	0.79%	0.59%	0.40%	0.77%	1.03%
Inventories	-0.08%	0.87%	-0.03%	-0.01%	1.12%	-1.29%	-0.08%	1.48%	0.38%	0.28%	-1.54%
Government	0.14%	-0.01%	-0.26%	0.33%	0.21%	0.00%	-0.51%	-0.42%	-0.38%	-0.88%	-0.75%
Exports	0.67%	-0.81%	0.71%	0.24%	1.28%	-0.95%	1.42%	0.55%	0.64%	0.12%	-0.07%
Imports	-0.54%	-1.12%	-1.60%	0.15%	-1.52%	-0.44%	-0.16%	-0.39%	-0.89%	-0.13%	0.65%
Real Final Sales	2.40%	-0.23%	2.10%	4.28%	3.44%	0.38%	3.90%	1.50%	0.73%	1.63%	1.64%

The revision to the 1st quarter numbers was part of a comprehensive restatement of historic GDP numbers from 2012 of 2015. Some of the revisions were the result of better data, while other revisions were the result of methodology changes. The revisions are as follows :

BEA's Revisions to US Economic Growth

Quarter	New Rate	Prior Rate	Net Change
1Q-2015	0.64%	-0.17%	+0.81%
4Q-2014	2.07%	2.22%	-0.15%
3Q-2014	4.27%	4.96%	-0.69%
2Q-2014	4.56%	4.59%	-0.03%
1Q-2014	-0.91%	-2.11%	+1.20%
4Q-2013	3.82%	3.50%	+0.32%
3Q-2013	2.98%	4.51%	-1.53%
2Q-2013	1.11%	1.77%	-0.66%
1Q-2013	1.91%	2.75%	-0.84%
4Q-2012	0.10%	0.06%	+0.04%

3Q-2012	0.50%	2.48%	-1.98%
2Q-2012	1.89%	1.62%	+0.27%
1Q-2012	2.67%	2.25%	+0.42%

Summary and Commentary

Our observations this month are focused on the BEA's revisions to the historic data:

-- The revisions follow a recent annual pattern of the BEA revising historic quarterly growth rates lower. This revision removed -0.19% on average from the then previous average from previously reported growth rates, while the 2014 revisions removed -0.19% on average from the then previous growth rates (and another -0.09% was removed on average in 2013). The cumulative impact of the successive hair-cutting of growth rates by an average approaching one half percent relative to "final" headline numbers -- representing an optimistic bias of one half percent in the BEA's "final" estimates. It is worth noting that this optimistic bias has been getting progressively worse over time.

-- Especially hard hit in the revisions were the real per-capita disposable income numbers. The cumulative compound annual growth rate for real disposable income has been only +0.45% since the second quarter of 2008. And these figures represent mean income, not median income, by disproportionate growth at the upper end. According to Sentier Research, median incomes during the same time span grew at roughly 4%.

-- And household savings rates have been weaker than previously suspected, confirming the lower incomes.

A conclusion from the above? The BEA has been persistently optimistic about the "Great Recovery" while the media has been hammering. Sadly, nothing in this report suggests that things are getting better.

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