

Consumer Metrics Institute News

August 27, 2015: BEA Revises 2nd Quarter 2015 GDP Growth Upward to 3.70%

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

In their second estimate of the US GDP for the second quarter of 2015, the [Bureau of Economic Analysis](#) (BEA) reported that the economy was growing at a 3.70% annualized rate, up +1.38% from their previous estimate and up +3.06% from the first quarter.



This report included significant upward revisions to the growth rate contributions from commercial fixed investment (revised upward +0.52%), inventories (up +0.30%) and government spending (up +0.33%). Consumer spending was revised upward a more modest +0.13%, and the net impact of exports and imports was also revised upward +0.10%.

Real annualized per capita disposable income was reported to be \$37,843 per annum, down \$3 per year from the last estimate. The household savings rate was unchanged at 4.8% -- still down -0.4% from the prior quarter's 5.2% rate.

For this revision the BEA assumed an annualized deflator of 2.07%. During the same quarter (April 2015 through June 2015) the inflation recorded by the Bureau of Labor Statistics (BLS) in their CPI-U index was 3.52%. Under estimating inflation results in optimistic growth rates, and if the BEA's "nominal" data was deflated using CPI-U inflation information the headline number would show a more modest +2.33% growth rate.

Among the notable items in the report :

- The headline contribution from consumer expenditures for goods was +1.19% (up +0.15% from the previous estimate).
- The contribution to the headline from consumer services decreased slightly to +0.93% (down -0.02% from the previous report). The combined consumer contribution to the headline number was 2.12%, up +0.13% from the first estimate.
- The headline contribution from commercial private fixed investments was revised upward to +0.66% -- up an impressive +0.52% from earlier report.
- Inventories changed from a mild contraction to a modest growth, providing +0.22% of the headline number (up +0.30% from the previous estimate).
- Governmental spending added +0.47% to the headline (up +0.33% from the earlier report). The revised growth was almost entirely in state and local infrastructure investment.
- Exports were slightly down from the last estimate, but still added +0.65% to the headline number (down -0.02% from the first estimate).
- Imports subtracted less from the headline number (-0.42%) than previously reported (an improvement of +0.12%).
- The "real final sales of domestic product" is now reported to be growing at a +3.48% annualized rate. This is the BEA's "bottom line" measurement of the economy and it excludes the reported inventory growth.
- And as mentioned above, real per-capita annual disposable income was revised slightly downward and the household savings rate was unchanged. The real per-capita annual disposable income is up only +3.18% in aggregate since the second quarter of 2008 -- an annualized +0.45% growth over the past 28 quarters.

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 percentage growth number) are as follows :

GDP Components Table

	Total GDP	=	C	+	I	+	G	+	(X-M)
Annual \$ (trillions)	\$17.9	=	\$12.2	+	\$3.0	+	\$3.2	+	\$-0.5
% of GDP	100.0%	=	68.2%	+	16.9%	+	17.8%	+	-2.9%
Contribution to GDP Growth %	3.70%	=	2.12%	+	0.88%	+	0.47%	+	0.23%

The quarter-to-quarter changes in the contributions that various components make to the overall GDP can be best understood from 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, added a line for the BEA's "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	3Q-2012	2Q-2012	1Q-2012
Total GDP Growth	3.70%	0.64%	2.07%	4.27%	4.56%	-0.91%	3.82%	2.98%	1.11%	1.91%	0.10%	0.50%	1.89%	2.67%
Consumer Goods	1.19%	0.25%	0.91%	0.91%	1.49%	0.25%	0.70%	0.60%	0.28%	1.39%	0.53%	0.63%	0.26%	1.11%
Consumer Services	0.93%	0.94%	1.95%	1.42%	1.11%	0.61%	1.66%	0.57%	0.68%	0.36%	0.25%	0.10%	0.20%	0.52%
Fixed Investment	0.66%	0.52%	0.39%	1.23%	0.87%	0.91%	0.79%	0.59%	0.40%	0.77%	1.03%	0.00%	0.98%	2.00%
Inventories	0.22%	0.87%	-0.03%	-0.01%	1.12%	-1.29%	-0.08%	1.48%	0.38%	0.28%	-1.54%	-0.18%	0.56%	-0.53%
Government	0.47%	-0.01%	-0.26%	0.33%	0.21%	0.00%	-0.51%	-0.42%	-0.38%	-0.88%	-0.75%	-0.22%	-0.39%	-0.40%
Exports	0.65%	-0.81%	0.71%	0.24%	1.28%	-0.95%	1.42%	0.55%	0.64%	0.12%	-0.07%	0.27%	0.61%	0.37%
Imports	-0.42%	-1.12%	-1.60%	0.15%	-1.52%	-0.44%	-0.16%	-0.39%	-0.89%	-0.13%	0.65%	-0.10%	-0.33%	-0.40%
Real Final Sales	3.48%	-0.23%	2.10%	4.28%	3.44%	0.38%	3.90%	1.50%	0.73%	1.63%	1.64%	0.68%	1.33%	3.20%

Summary and Commentary

On the surface this report shows solid economic growth for the US economy during the second quarter of 2015. Unfortunately, all of the usual caveats merit restatement:

-- A significant portion of the "solid growth" in this headline number could be the result of understated BEA inflation data. Using deflators from the BLS results in a more modest 2.33% growth rate. And using deflators from the Billion Prices Project puts the growth rate even lower, at 1.28%.

-- Per capita real GDP (the number we generally use to evaluate other economies) comes in at about 1.6% using BLS deflators and about 0.6% using the BPP deflators. Keep in mind that population growth alone (not brilliant central bank maneuvers) contributes a 0.72% positive bias to the headline number.

-- Once again we wonder how much we should trust numbers that bounce all over the place from revision to revision. One might expect better from a huge (and expensive) bureaucracy operating in the 21st century. Among major economies, only the Chinese numbers are more suspect.

All that said, we have -- on the official record -- solid economic growth and 5.3% unemployment. What more could Ms. Yellen want?