Consumer Metrics Institute News

September 25, 2015: BEA Revises 2nd Quarter 2015 GDP Growth Upward Again, to 3.92%

(Web page version is here)

In their third 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 3.92% annualized rate, up +0.22% from their previous estimate and up +3.28% from the first quarter.

This report included significant upward revisions to the growth rate contributions from consumer spending on services (up +0.30%) and commercial fixed investment (revised upward +0.17%). Inventory growth was revised downward by -0.20%, and all other segments of the economy were left essentially unchanged.

Real annualized per capita disposable income was reported to be $37,835 per annum, down another $8 per year from the last estimate. The household savings rate was revised downward to 4.6% -- now down over a half percent (-0.6%) from the prior quarter's 5.2% rate.

For this revision the BEA assumed an annualized deflator of 2.13%. 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 +2.61% growth rate.

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

-- The headline contribution from consumer expenditures for goods was +1.20% (up +0.01% from the previous estimate).

-- The contribution to the headline from consumer services increased materially to +1.23% (up +0.30% from the previous report). The combined consumer contribution to the headline number was 2.43%, up +0.31% from the earlier estimate.

-- The headline contribution from commercial private fixed investments was revised upward to +0.83% -- up +0.17% from prior report.

-- Inventory growth was revised to nearly flat, providing +0.02% of the headline number (down -0.20% from the previous estimate).

-- Governmental spending added +0.46% to the headline (down -0.01% from the earlier report). The revised growth remained almost entirely in state and local infrastructure investment.

-- Exports were slightly down from the last estimate, but still added +0.64% to the headline number (down -0.01% from the first estimate).

-- Imports subtracted more from the headline number (-0.46%) than previously reported (a change of -0.04%).

-- The "real final sales of domestic product" is now reported to be growing at a +3.90% 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 also deteriorated. The real per-capita annual disposable income is up only +3.16% in aggregate since the second quarter of 2008 -- a meager 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 **:**

GDP = private consumption + gross private investment + government spending + (exports - imports)

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 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%	=	68.3%	+	16.9%	+	17.8%	+	-2.9%
Contribution to GDP Growth %	3.92%	=	2.43%	+	0.85%	+	0.46%	+	0.18%

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	3.92%	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	1.20%	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	1.23%	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	0.83%	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	0.02%	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	0.46%	-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	0.64%	-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	-0.46%	-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	3.90%	-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

Once again the BEA is reporting solid economic growth for the US economy during the second quarter of 2015. And once again we need to mention some reasons for caution before breaking out the champagne and declaring that the US economy is thriving:

-- 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 2.61% growth rate. And using deflators from the Billion Prices Project results in an even lower growth rate, at 1.94%.

-- The annualized growth of real per capita GDP (the number we generally use to evaluate other economies) comes in at about 1.9% using BLS deflators and about 1.2% 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.

Presumably, the FOMC had all of this information available during its latest deliberations on "normalizing" its benchmark interest rates. One might wonder how a nearly 4% official economic growth rate (with unemployment significantly under 6%) merits continued pedal-to-the-metal interest rate stimulus. Which in turn raises the question: What do they know about the economy that isn't reflected in the BEA's report? Or perhaps more to the point: If it is not the US economy or employment that spurs caution within the FOMC, has the Federal Reserve now taken upon itself new global or financial market mandates quite apart from those imposed by Congress?
