Consumer Metrics Institute News

November 24, 2015: BEA Revises 3rd Quarter 2015 GDP Growth Upward to 2.07%

(Web page version is here)

In their second estimate of the US GDP for the third quarter of 2015, the Bureau of Economic Analysis (BEA) reported that the economy was growing at a +2.07% annualized rate, up +0.58% from their previous estimate -- but still down nearly 2% (-1.85%) from the second quarter.

This report's headline number was buoyed substantially by a sharp revision in inventories. All of the other line items were either essentially unchanged or weaker. Although inventories are still reported to have been contracting at a -0.59% annualized rate, that is a +0.85% improvement from the -1.44% contraction rate reported in the previous estimate. As we have mentioned a number of times before, the BEA's treatment of inventories can introduce noise and seriously distort the headline number over short terms -- which the BEA admits by also publishing a secondary headline that excludes the impact of inventories. Because of the general weakness in the non-inventory line items, this BEA "bottom line" (their "Real Final Sales of Domestic Product") was revised downward -0.29% to a +2.66% growth rate for the third quarter, from the +2.93% previously reported.

Consumer activity once again contributed the vast bulk of the headline number (providing +2.05% in total), although that contribution was less than in the previous estimate (down -0.14% in aggregate). Fixed commercial investments and governmental spending were essentially unchanged, while exports and imports weakened materially from the previous estimate.

And in a glimmer of good news, household income was again revised significantly upward. Real annualized per capita disposable income was reported to be $38,260 per annum, up $174 from the previous estimate and now up $293 per year from the prior quarter. The household savings rate was reported to be 5.2% -- up substantially from the prior quarter's 4.7% rate.

For this revision the BEA assumed an annualized deflator of 1.32%. During the same quarter (July 2015 through September 2015) the inflation recorded by the Bureau of Labor Statistics (BLS) in their CPI-U index was slightly negative (dis-inflationary), at -0.37%. Over estimating inflation results in pessimistic growth rates, and if the BEA's "nominal" data was deflated using CPI-U inflation information the headline number would show a much better +3.78% growth rate.

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

-- The headline contribution from consumer expenditures for goods was +1.05% (up +0.06% from the previous estimate, but down -0.15% from the prior quarter).

-- The contribution to the headline from consumer services weakened slightly to +1.00% (down -0.20% from the first estimate and -0.23% from the second quarter). The combined consumer contribution to the headline number was +2.05%, down -0.38% from 2Q-2015.

-- The headline contribution from commercial private fixed investments was revised slightly upward to +0.54%, up +0.07% from the previous report but down -0.29% from prior quarter.

-- As mentioned above, inventories were by far the largest revision -- now subtracting -0.59% from the headline number instead of the -1.44% previously reported. As we have mentioned a number of times, this number should be largely ignored.

-- Governmental spending added +0.29% to the headline (essentially unchanged, and down -0.17% from the prior quarter). The reported growth was almost entirely in state and local spending.

-- The contribution to the headline number from exports (+0.11%) was less than half of the number from the previous report, and only a sixth of the +0.64% recorded for 2Q-2015.

-- Imports subtracted more from the headline number (-0.33%) than in the previous estimate.

-- The "real final sales of domestic product" is now reported to be growing at a +2.66% annualized rate, down from the +2.93% in the previous estimate. Once again, this is the BEA's "bottom line" measurement of the economy and it excludes the reported inventory contraction.

-- Also as mentioned above, real per-capita annual disposable income was reported to have grown materially during the quarter and the household savings rate also improved substantially. However, this real per-capita annual disposable income is up only +4.32% in aggregate since the second quarter of 2008 -- a meager annualized +0.58% growth rate over the past 29 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)	$18.1	=	$12.4	+	$3.0	+	$3.2	+	$-0.5
% of GDP	100.0%	=	68.6%	+	16.6%	+	17.8%	+	-2.9%
Contribution to GDP Growth %	2.07%	=	2.05%	+	-0.05%	+	0.29%	+	-0.22%

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

	3Q-2015	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	2.07%	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	1.05%	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	1.00%	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	0.54%	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	-0.59%	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	0.29%	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	0.11%	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	-0.33%	-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	2.66%	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

Although the headline number has been revised upward, most of the line items were either essentially unchanged or were weaker. The upward revision was provided almost exclusively by the volatile, flaky and ultimately zero-reverting inventory data. The most notable items in this report are:

-- If we remove the noise created by the inventory data, we are left with the BEA's own "bottom line" -- the "real final sales of domestic product." That number shows a respectable +2.66% growth rate, down "only" -1.24% from the +3.90% number reported for the second quarter. Given the suspect nature of the inventory data, this is probably a somewhat closer read on the economy than the headline number.

-- The economic growth provided by consumer spending is reported to be softening -- although the data on consumer spending for services has arguably become noisier as a direct consequence on Obamacare.

-- A sharply increased 5.2% household savings rate goes a long ways towards explaining the weak retail sales numbers. Household monies that are no longer being spent at the gasoline pump are simply being saved. Households are not particularly confident when looking forward.

-- The contribution of exports to the headline number is a mere one-sixth what it was in the second quarter. The soaring dollar and plunging global economy have likely caught up with US exporters. In coming quarters we may look favorably back on a time when exports provided any growth at all.

This revision is a mixed bag **:** the headline improved, but only as the result of flaky inventory data. The core domestic economy seems to be transitioning to slower growth, with exports leading the way.

Meanwhile, a reported GDP growth in excess of 2% creates an ongoing dilemma for the FOMC's zero-rate policy. Frankly, the FOMC will likely ignore this upwardly revised headline -- which is probably what we all should do.
