Wasssup With The GDP Numbers?

by Steve Brown

Last week, the third and final revision for 2014 Q1 GDP was released and it came in at a negative 2.9% annualized rate. This was so ugly it was the weakest reading on the output of the American economy in 5Ys. So in answer to the question "wassup?" the answer is "nothing much."

In short, these numbers pretty much stink - period. Sure, economists had expected a negative number, but they were all guessing it to be somewhere around minus 1.8%. The common reasoning was that Q1 weakness was weather-related, which fits the box neatly when you consider many parts of the country did have a severe winter. What doesn't fit so neatly is that while there was bad weather in some parts of the country, there were other parts that had a very mild winter. Construction in those regions was not delayed or obstructed so the economy should have done ok in those areas and averaged out to something a bit better. Not to oversimplify, but we do have winter every year so it is a fairly predictable phenomenon. One may wonder whether bad weather is really a reasonable explanation after all.

While pondering the size of the negative Q1 GDP, another big question is the striking size of the revision. The revision dropped the number from -1.0% to -2.9%, which is a huge miscalculation considering the size of the U.S. economy. In fact, it is the biggest downward revision between the second and third GDP revisions since the Commerce Department began keeping these records in 1976. Perhaps those who collect the data were also snowed in, so chose to stay in their comfy chair watching television rather than dig their way out and collect the data. Before our sarcasm overtakes us, though, to back up for a moment, the reason the calculation of GDP is revised 3x is that some economic readings that make up the total come out later than others so it takes awhile to compile the data. The brutal part of this report though, is that the increasing velocity of the decline with each revision suggests that the economy weakened significantly later in Q1. The good news is that the same group of economists who are usually less accurate than weather forecasters say we will all see a significant bounce in Q2.

For our readers that love to dig into the data, we note the Bureau of Economic Analysis divides GDP into 4 major components: Personal Consumption Expenditures, Business Investment, Government Spending, and Net Exports of Goods and Services. Overall, some 70% of what the country produces is for personal consumption, so that is a key component for sure. This includes durables goods like autos and furniture and non-durable goods such as food, clothing and fuel. The service sector meanwhile, includes financial services and health care, which are the largest part of personal consumption and make up about 48% of total GDP.

Looking closer at the weakness in the components of GDP in Q1, we find some predictable drivers. These include a pullback in business inventories (subtracted 1.7%), a slowdown in home and commercial building, lower net exports (imports rose and exports fell) and other factors. The biggie though is that consumer spending was far weaker than analysts had estimated.

So how could the analysts be so far off the mark or do they really just throw darts every quarter? Certainly, measuring GDP is exceedingly complex and important elements of the economy like intellectual property have only recently been added to the calculation. This volatility though tells us another story and that is we are dealing with a low growth economy with little ability to resist external forces. Strong growth can cover a multitude of sins, but when the economy is sputtering along like it is now, bankers need to be wary.

For now, we recommend taking note of the economic readings and applying what's important in your business. Stay focused on your customers and pay close attention to the trends in your business footprint to stay ahead of any ongoing weakness or pick up on accelerated growth. Things are weird right now, so market volatility could pick up and external events can have a bigger impact than usual. This is probably the most important takeaway for banks or any other kind of business from the Q1 GDP report.

BANK NEWS

Mortgage Risk

Moody's reports servicing fees, principal advances, interest, taxes and insurance payments on severely delinquent mortgages (in foreclosure 3Ys or more) increasingly exceed the outstanding balance of the mortgage.

Mobile Location

Facebook announced it will add smartphone notifications that will alert people when their friends are nearby.

Customer Targeting

A report from marketing firm GetResponse finds email click through rates are the highest on Friday at 4.9%, while the lowest is Monday at 4.2%.

M&A Reasons

A survey by Deloitte finds companies rank the following objectives as "extremely important" reasons for looking at M&A transactions: expanding the customer base in existing geographic markets (43%), cost synergies or scale efficiencies (32%), entering new geographic markets (31%), product or service diversification (23%), technology acquisition (23%) and talent acquisition (16%).

Shareholders vs. Growth

The same Deloitte survey of corporate and private equity respondents finds companies intend to use cash reserves for the following: investing organically (44%), mergers and acquisitions (30%), to buy back stock (11%) or pay out as a dividend (8%).

Board Count

A survey by Bank Director finds banks say they have the following number of directors by asset size: > $5B (10 directors), $1B to $5B (11), $501mm to $1B (9), $250mm to $500mm (9), <$250mm (9).