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HAWK Talon
Monthly Hawk100 Insights July 2014

# "Happy" Days Return with Latest GDP Report.

## *US economy rebounds during second quarter with 4.0% growth.*

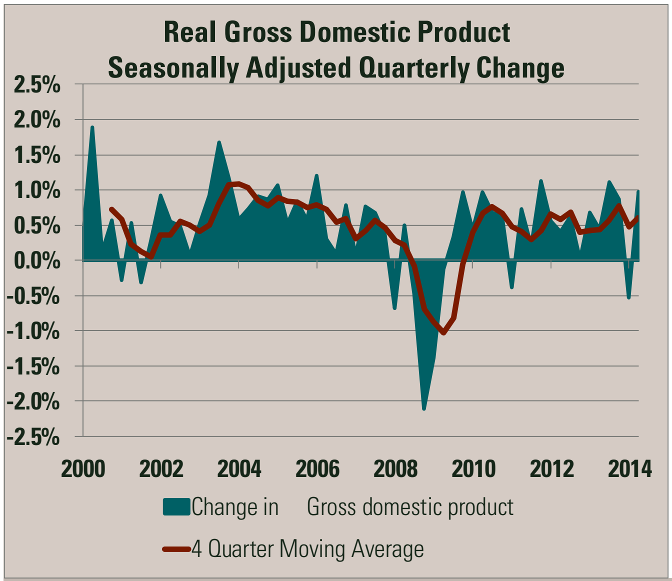
Pharrell Williams' song "Happy" topped popular music charts during most of the second quarter. The July 30 Gross Domestic Product (GDP) report[1] from the US Bureau of Economic Analysis (BEA) has a happy tone that suggests Williams' tune.

### "Because I'm Happy."

BEA finds at least three things to be happy about in its GDP report:

1. Second quarter GDP —the standard measure of economic strength—rose 4.0%.
2. The first quarter slide was 0.8% better than previously estimated.
3. Annual revisions taken back to 1999 effectively shift growth into current periods.

**"Clap along if you feel like happiness is the truth."** The second quarter report showed growth of 4.0% annually. BEA was happy to report this news following the first quarter news of contraction. Inventories rose 165% to explain nearly all of the increase in GDP.




SOURCE: US Bureau of Economic Analysis.

Inventories fluctuate for a variety of reasons, not all of which are good. Sometimes, they rise as businesses ramp up production in anticipation of higher demand. Inventories could also rise when businesses sell less product in the face of weakening demand.

BEA reported two other factors that have more durable economic impact than oscillating inventory levels. Consumers purchased more durable goods such as autos, furnishings, and recreational goods. Durable goods purchases rose 3.3%, the greatest quarterly increase since the second quarter 2009. Capital investment by businesses for the expansion of structures and equipment climbed 1.4%. These are positive indicators for the economy as consumers and the private sector express their confidence through such investments.

**Revisions.** BEA made upward revisions to first quarter GDP. As we discussed in the June 2014 HawkTalon, GDP was reported to have fallen at a 2.9% annual rate. BEA now says GDP fell only 2.1% in that quarter. BEA says it made an upward revision to non-residential fixed investment and a downward revision to imports. A fluctuating US dollar—which has found recent strength—could continue to affect the balance of imports and exports.

**Revisions, redux.** BEA also revised annual GDP estimates back to 1999. The revisions focused on those items that are affected by price levels. Net exports, again affected by relative strength or weakness of the US dollar, and the price deflator for personal consumption expenditures. The cumulative effect of these revisions was to reduce the level of real GDP for 2013 by 0.2%. By lowering that baseline, BEA is able to report higher rates of growth for 2014.

### Measured Market Response.

Despite the positive GDP report, US stocks were flat on the release date. During the release date and the following day, July 30 and 31, respectively, the S&P 500 rose only a fraction of a point then fell more than 2%. Stock investors do not share the BEA happiness.

[1] "Gross Domestic Product: Second Quarter 2014 (Advance Estimate)." (July 30, 2014)
[2] "Preview of the 2013 Comprehensive Revision of the National Income and Product Accounts," *Survey of Current Business 93* (March 2013)

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