Data Release: Goods sectors came through in 2013 the face of slowdown in services and government weakness. Interestingly, fastest growing sectors barely added jobs over the year.

- This morning the Bureau of Economic Analysis released official GDP by industry figures at a quarterly frequency. Previously these figures were only available on an annual basis. The BEA intends to release these statistics at a quarterly frequency going forward within 30-days of the Third Estimate of GDP by expenditure figures.
- Real GDP by Industry advanced by 1.9% in 2013 down from the 2.8% growth rate in 2012 – on par with the expenditure-side measures. Most of the slowdown was related to private-services sectors which decelerated from 2.7% in 2012 to 1.8% in 2013. Government subtracted from growth, declining by 1.1% after a 0.2% contraction in 2012. In contrast, momentum within goods-producing sectors remained intact, with an expansion of 3.6% after 3.7% growth in 2012.
- Strength in goods sectors was most pronounced in nondurable manufacturing (+5.3%) and agriculture (+16.4%) while growth in durable mfg., construction, mining, and utilities fell shy of the headline GDP number.
- Although private-service slowed broadly, information (+3.2%), health care & social assistance (+2.3%) and retail trade (+2.1%) outperformed the economy. Underperformers consisted of real estate, rental & leasing (+1.6%), professional, scientific, and technical services (+1.5%), and education (-0.9%).
- Perhaps the most interesting tidbit that can be gleaned from this report is that the two sectors that led growth in goods and services, nondurable mfg. and information accounted for more than one-quarter of all economic growth but added only 14 thousand of the 2.2 million jobs created in the economy over 2013 – less than one percent of the total.
- The decline in government was all at the federal level, which contracted by 3.3%. At the same time, state & local neither added nor subtracted from the economy over 2013.

Key Implications

- While this morning’s report does not uncover any new information at the aggregate level, the dynamics of growth at the sectoral level certainly does, with significant implications for future growth.
- Manufacturing continues to play a larger part in U.S. economic growth, having contributed 0.4 percentage points in 2013 – nearly double the 2012 contribution and quadruple that from 2011. All the more interesting is the source of this strength, which was instead of durables found in nondurable manufacturing, with the sector adding more support for the economy than any year since 1994. While a more detailed sector breakdown is not yet available, judging from industrial production, employment and anecdotal evidence, much of this growth was concentrated in chemical, petroleum & coal, and plastics & rubber product manufacturing. These industries have benefitted most from the shale revolution as swelling oil and natural gas (until this harsh winter) stockpiles led to lower prices for their feedstocks and provided competitive advantage globally.
- The slowdown in housing activity that took place over much of 2013 due to a spike in mortgage rates and a pull-back in investor purchasing activity has largely manifested in a deceleration in construction (from 4% in 2012 to 1.5% in 2013) and real estate, rental & leasing industries (from 2.2% in 2012 to 1.6% in 2013). Despite the poor showing last year, we expect these sectors to accelerate this year and next. Homebuilding remains 50% below demographically-needed levels, and mortgage rates have stabilized from last summer, with ongoing improvement in labor market and credit conditions a motivation for more first-time buyers to enter the market.
- A poor showing amongst many private services sectors over 2013 has been partly related to the sequester. Many highly exposed sectors were hard hit in the first quarter, with professional & business
services (-10.1%), education (-4.9%), and other services (-4.4%) sustaining large losses during that time. The sequester has also impacted durable manufacturing, which contracted in 13Q1 (-0.5%) for the first time in eight quarters and weakness carried into the second quarter. However, with the sequester cuts watered down in the subsequent bipartisan budget deal, we expect these industries will rebound in 2014 – with this view collaborated by their recent acceleration into the second half of 2013.

- Government is unlikely to add to growth in the coming quarters. The federal government continued to contract at a rapid pace (-6.0% annualized in 13Q4). Fortunes have turned for state & local governments recently, with tax revenues continuing to improve. However, these still remain well below their previous levels after adjusting for inflation and population growth, with any near-term growth likely to be limited in nature.

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