

Economic Analysis

Another Surprising Upward Revision to Real GDP

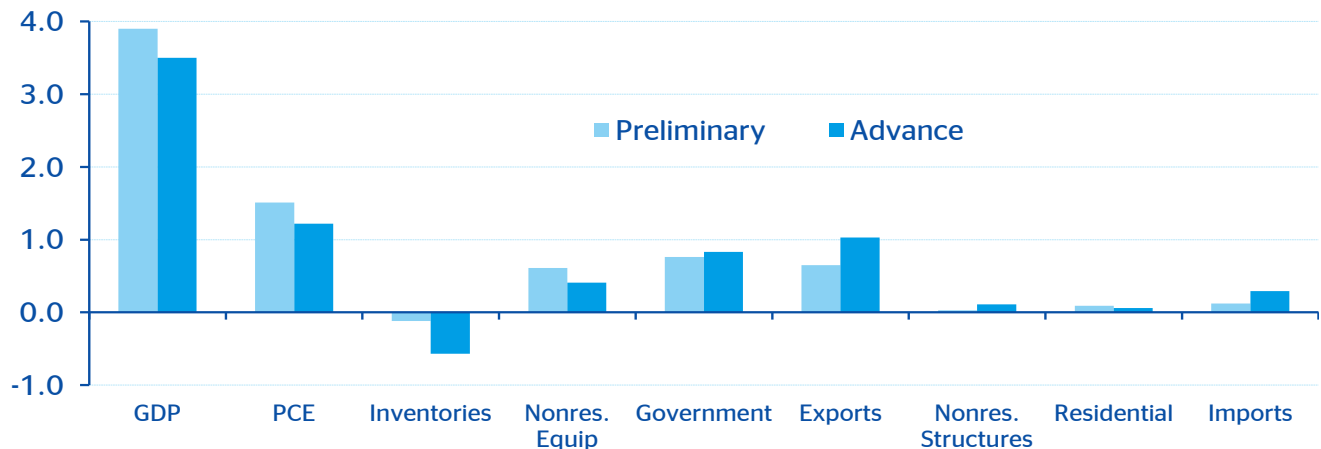
Kim Fraser Chase

- **Real GDP growth for 3Q14 was revised up from the advance of 3.5% to 3.9% QoQ SAAR**
- **Upward revision due in large part to consumption and nonresidential fixed investment**
- **Revised data puts additional upward bias on our baseline scenario for growth in 2014**

The preliminary report for 3Q14 real GDP growth was a welcome surprise, hinting at more positive underlying details compared to the advance release. Growth was revised up from 3.5% to 3.9% QoQ SAAR, slightly less than the 4.6% pace seen in the second quarter. The primary drivers behind this upward revision were personal consumption expenditures (up from 1.8% to 2.2%) and nonresidential fixed investment (up from 5.5% to 7.1%). Also, the contribution from the change in private inventories was much less negative than originally reported (-0.12 percentage points versus -0.57pp). This is all good news, pointing toward stronger underlying fundamentals of business and consumer demand rather than a mere one-time boost from defense spending (unchanged from the advance estimate of 16.0% QoQ SAAR). On the downside, export growth was revised down from 7.8% to 4.9%, hinting at a gloomier picture for global demand than previously thought.

This revised figure puts additional upward bias on our growth forecast for 2014. Assuming this data hold for the final report, we may see growth as high as 2.2% for the year. However, growth in the fourth quarter is not expected to come close to the pace seen in 2Q and 3Q. Although domestic demand is expected to hold strong during the holiday shopping season, global demand remains weak. As such, we expect to see more of a drag from net exports to close out the year. Furthermore, we don't expect to see another big push from government consumption. Our expectation for real GDP growth in 2015 remains unchanged at 2.5%.

Chart 1
Contributions to Real GDP Growth
(3Q14 Advance vs Preliminary, SAAR Percentage Points)



Source: Bureau of Economic Analysis & BBVA Research

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.