

Economic Analysis

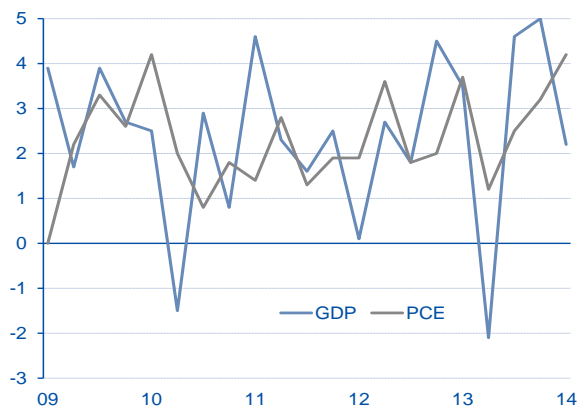
# Real GDP Growth Revised Down to 2.2% in 4Q14

Kim Fraser Chase

- **Growth revised down from 2.6% to 2.2% for 4Q, though the annual average held at 2.4%**
- **Our monthly activity index highlights employment and CRE as key contributors to growth**
- **Potential for weather-related slowdown in 1Q15, but otherwise optimistic outlook for 2015**

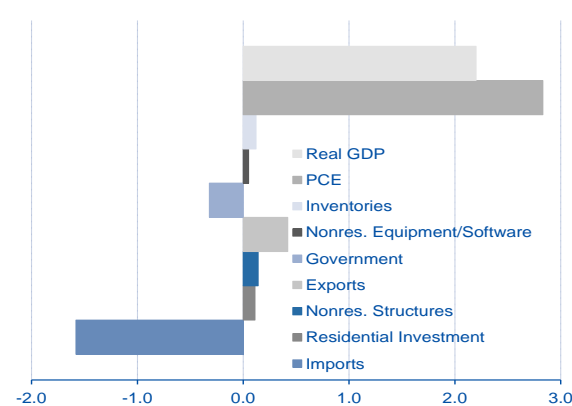
Real GDP growth in 4Q14 was revised down to 2.2% QoQ SAAR in the preliminary report, mostly due to an adjustment in private inventory investment. Gross private fixed investment was revised down from the initial estimate of 7.4% to 5.1%, the slowest pace since 1Q14, yet nonresidential fixed investment was revised up from 1.9% to 4.8%. The downward adjustment to total inventory investment amounted to nearly \$25bn between the first and second estimates. Personal and government consumption expenditures were mostly unchanged, while import and export growth were revised up slightly. On an annual basis, growth for 2014 held steady at 2.4%.

Chart 1  
**Real GDP and Personal Consumption (QoQ SAAR % Change)**



Source: BEA & BBVA Research

Chart 2  
**Contributions to Real GDP Growth (4Q14 Preliminary, SAAR Percentage Points)**



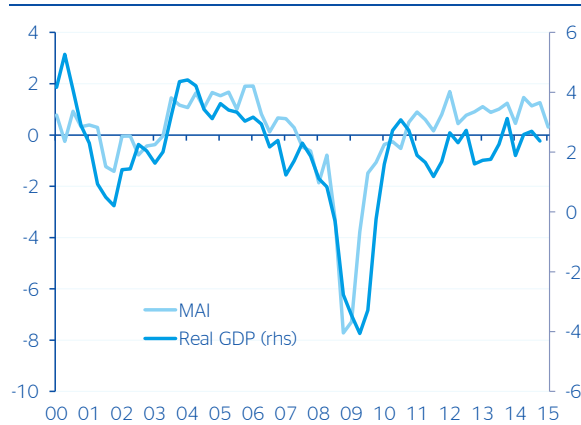
Source: BEA & BBVA Research

This revision to GDP falls more in line with projections based on our in-house monthly activity index (MAI), which we use to forecast GDP on a short-term basis (Chart 3). The index encompasses nearly 100 macroeconomic variables and is a composite of ten individual indices representing housing, commercial real estate (CRE), employment, economic confidence, financial markets, spending, production, prices, international trade, and banking. When the first data for 4Q14 were released back in November, our MAI forecasted a 2.2% pace for GDP in the quarter. This forecast shifted up slightly as more data were released throughout December and January. Among the various components of the MAI, employment and CRE were the strongest for the quarter (Chart 4). For 1Q15, our MAI suggests real GDP growth near 1.8% based on the relevant data released thus far.

Looking ahead to 2015, our outlook remains mostly optimistic. We have revised up our forecast from 2.5% to 2.9% for the year, mostly due to a potential boost to consumption from lower oil prices. However, we expect to see somewhat of weather-related impact on first quarter data to be released in the coming weeks. Severe winter storms

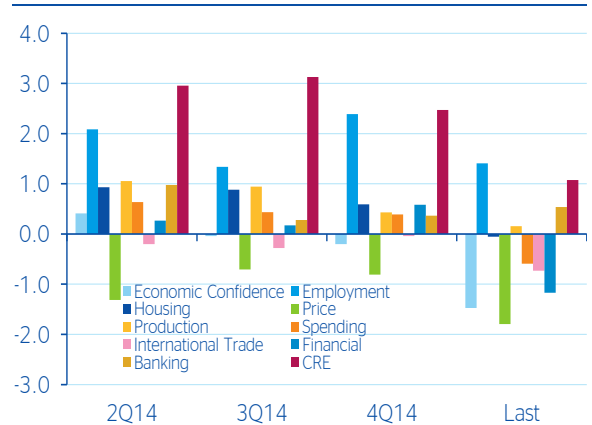
throughout late January and most of February halted activity for days at a time, and as we saw during the first quarter of 2014, this can have a significant impact on GDP. While we do not expect to see a contraction as in 1Q14, we are likely to see growth below 2.0% for the quarter. Once we move into 2Q15, we should start to see near 3.0% growth for the following quarters.

Chart 3  
**BBVA Research MAI & Real GDP (4Q % Change)**



Source: BEA & BBVA Research

Chart 4  
**BBVA Research MAI Components**



Source: BBVA Research

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