Economic Analysis

Weak 1Q GDP Continues for 7th Straight Year

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- **1Q15 advance estimate of 0.2% does not jeopardize our 2.9% annual forecast**
- **Post-2007 seasonal adjustment trends minimize the relevancy of advance 1Q15 release**
- **Availability of quarterly NSA data would help reveal the underlying causes of systematically weak first quarter growth throughout the past seven years**

The BEA's advance estimate for real GDP growth confirmed expectations for another weak first quarter, at a mere 0.2% on a QoQ seasonally-adjusted annualized basis (SAAR). Not surprisingly, personal consumption was the strongest component by far at 1.9%, while most others declined for the quarter. Nonresidential fixed investment was dragged down by a massive 23.1% drop in structures, the largest decline since 1Q11, offsetting modest gains in equipment in intellectual property products. Residential investment was more positive than expected (up 1.3%) despite the fact that extreme winter weather had significantly limited activity in the housing sector throughout the quarter. Export growth fell 7.2%, confirming the strong dollar's impact on an already weak global economy.

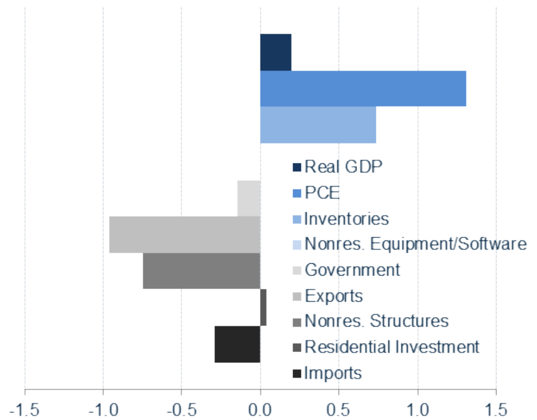
Despite systematically weak first quarter growth throughout the past few years, analysts have accepted that unusual events like the Japanese Tsunami and the Arab Spring, as well as extreme weather conditions such as the Polar Vortex, can explain such distortions. However, a closer look at the seasonally-adjusted data highlights unprecedented and lingering effects of the financial crisis. Between 1948 and 2006, seasonally-adjusted real GDP growth was well-balanced throughout quarters, suggesting that the seasonal adjustment process smoothed the data as intended. Since 2007, there has been a significant shift in the average quarterly growth rate that is inconsistent with the objective of seasonally adjusting the data –a negative first quarter followed by strong growth in 2Q and 3Q, closing out the year with moderate 4Q growth.

Most private and public forecasters, including Fed officials, appear satisfied with the basic explanation that severe winter weather conditions are mostly to blame. However, actual data on national average temperatures over the last few years are in line with historical trends and cannot support such a claim, and it seems that this inconsistency has slipped under the radar. Still, it is difficult to prove the underlying causes of such a change in seasonality. While most economic data is provided on a non-seasonally-adjusted (NSA) basis, the lack of transparency via quarterly NSA GDP data from the BEA makes it difficult to assess the true seasonal factors in the post crisis period.

As an example, last year's significant contraction in the first quarter (-2.1% SAAR) was blamed on weather. This year the weather has been just as bad, on top of other downward pressures like a stronger dollar, weak global growth and a retrenchment in capital investment in the energy sector, yet GDP growth was positive in 1Q15. This would suggest that either last year's negative growth was a fluke or that the economy in 2015 is stronger and more capable of dealing with these headwinds. However, according to our analysis, if there had been a complete overhaul of the seasonal adjustment normalization process, GDP growth at the start of both years should have been lifted further by more positive seasonal factors.

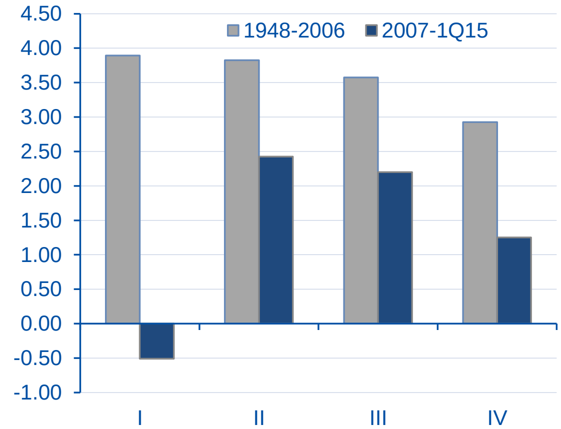
Despite these concerns, we maintain our annual forecast for 2015 at 2.9%, assuming that stronger consumption and private investment translate into higher growth in 2Q-4Q (averaging around 3.8% SAAR), helping to offset a weak first quarter.

Chart 1
Contributions to Real GDP Growth (1Q15 Advance, SAAR Percentage Points)



Source: BEA & BBVA Research

Chart 2
Real GDP Growth, Quarterly Averages (QoQ SAAR % Change)



Source: BEA & BBVA Research

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