

Economic Analysis

# 1Q15 GDP Revision Hints at Minor Contraction

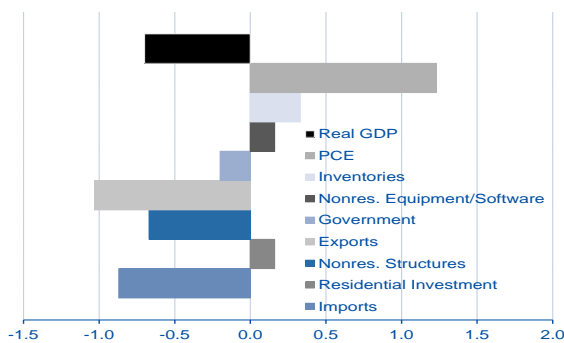
Kim Fraser Chase

- **Real GDP growth revised down from 0.2% to -0.7% QoQ SAAR in 1Q15**
- **Downward revisions stemmed from weaker net exports and private investment**
- **Our expectations still stand for 2.9% growth in 2015, assuming continued improvement in both domestic and global activity**

The preliminary estimate for 1Q15 GDP growth fell in line with expectations, dropping to -0.7% QoQ SAAR compared to the advance report of 0.2%. Weak net exports were a key factor in dragging down growth in the first quarter, with this revision foreshadowed by March’s significant deterioration in the trade balance (from -\$35.9B to -\$51.4B). Private inventory investment also contributed to the downward revision, with a much weaker contribution than was originally reported. Gross private fixed investment was revised down from 2.0% to 0.7% QoQ SAAR, though most of this stemmed from weaker growth in intellectual property products. Total nonresidential investment was slightly better than previously reported, though still negative. Residential investment was revised upward from 1.3% to 5.0% on account of stronger housing starts and sales in March.

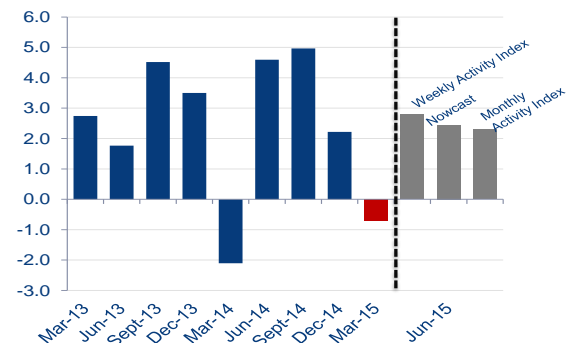
Given the ongoing discussions surrounding the BEA’s notoriously weak first quarter estimates since the crisis ([Weak 1Q GDP Continues for 7<sup>th</sup> Straight Year](#)), this downward revision should not be too much of an immediate concern. We have already seen some improvements moving into the second quarter, and we expect that the economy will continue to gain momentum as we transition into the second half of the year. Employment growth is back on track after a poor showing in March, further lifting consumer spirits for the months ahead. Global demand is also expected to improve gradually as the USD appreciation slows, in turn helping to boost U.S. export growth. According to our models, data for 2Q15 point to real GDP growth between 2.0% and 2.5% QoQ SAAR. This is slightly slower than we had previously expected but still leaves room to reach our annual forecast of 2.9% for 2015. When it comes to the Fed, we do not expect this to have any impact on the timing of the first rate hike, and we maintain our expectations for a September liftoff.

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



Source: BEA & BBVA Research

Chart 2  
**Real GDP Growth (QoQ SAAR % Change)**



Source: BEA & BBVA Research

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