Economic Analysis

U.S. Real GDP Growth Nowcast: 2.15% for 2Q15

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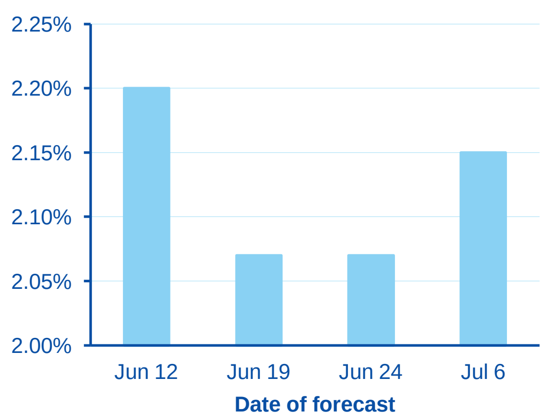
- **Our latest nowcast for 2Q15 real GDP growth is 2.15%**
- **Nowcast rose from 2.07% on June 24 and 2.20% on June 12**
- **Nonetheless, a downward revision to our baseline scenario is likely**

Our Mixed-Frequency Model for the U.S. (MIFUS) suggests a real GDP growth rate of 2.15% QoQ SAAR for 2Q15, up from 2.07% forecasted on June 24. The forecast incorporates recent data updates on employment in the private sector and new orders in the manufacturing sector, as well as the final revision for 1Q15 GDP growth which suggested a slightly smaller contraction at -0.2%.

Looking at the specific components of the MIFUS provides some insight into the updated nowcast for 2Q15. The ISM manufacturing new orders index showed a slight improvement at 56 for June, up only slightly from 55.8 in May. Still, this minor improvement suggests that we are not completely out of the woods and it remains possible that the index dips below 50, further testing the strength of the economy.

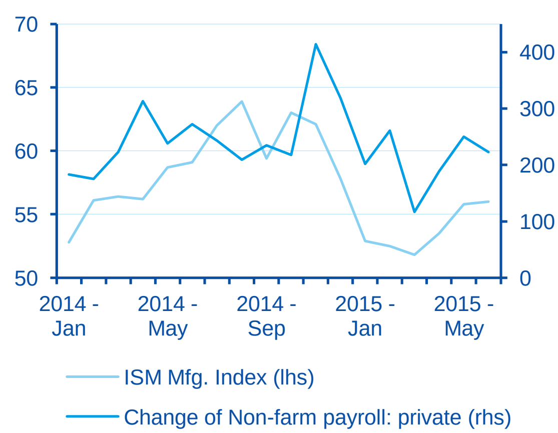
Meanwhile, nonfarm payrolls rose 223K for June. Compared with 254K for May, it indicates that the pace of hiring has slowed down slightly, which may just be another sign of the economy approaching full employment. Moreover, average weekly hours in the private sector have held steady at 34.5; in fact, average weekly hours have remained at 34.5 or above throughout the past 16 months, the longest streak since before the crisis. On the other hand, with the economy approaching full employment, we may see higher volatility in wage growth, which will have an income effect on working hours. In other words, we may observe more changes in wages and working hours if the economy keeps improving.

Chart 1
GDP Growth Rate Forecast for 2Q15 by MIFUS (QoQ SAAR)



Source: BBVA Research

Chart 2
Change of non-farm payroll and ISM manufacturing index



Source: BLS, ISM

While the nowcast marks a significant improvement over the minor contraction seen in 1Q15, the rate is still much slower than the +3.0% needed to hit 2.9% in 2015. It is possible that we could see extremely strong growth in 3Q and 4Q to make up for the weaker-than-expected 1H15 – this was the case in 3Q14, where growth hit 5.0% due to an unusual push from government spending. Furthermore, the BEA will release annual revisions on July 30th (along with the first estimate for 2Q15), and we could see significant changes to the data that support close to 3.0% growth for the year. However, with the data we have now, it is likely that we will revise down our baseline scenario for 2015 to incorporate the weakness in the first half of this year.

Risks appear tilted to the downside as uncertainties in the global economy are rapidly growing. The ongoing stock market crash in China, along with a vulnerable European economy could lower global demand for U.S. products and influence further appreciation of the USD, exerting additional downward pressure on the manufacturing sector. A stronger USD also translates into lower import prices, holding back inflation from inching closer to the Fed's 2.0% target. Downward revisions to GDP growth have already been incorporated into the Fed's projections, so it is unlikely that the 2Q15 GDP figure will have an impact on the timing of the first rate hike. However, if global economic conditions deteriorate further, the dovish FOMC members will likely push for a delay in the rate hike.