Economic Analysis

In-House Models Imply Above 2% GDP for 2Q15

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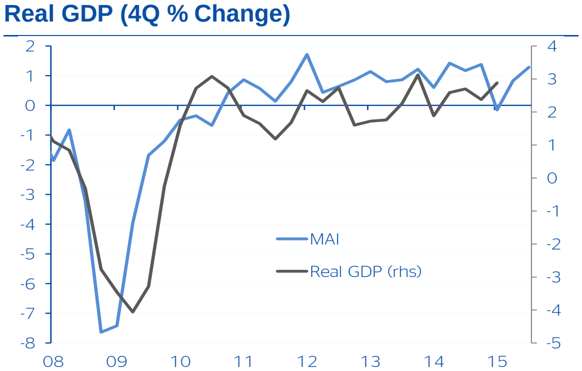
- **In-house GDP models incorporating most 2Q data suggest growth above 2%**
- **Consumption and business inventory growth set to be the strongest contributors to GDP**
- **BEA's annual revisions and adjustments to seasonal factors could skew 2015 forecasts**

The BEA is set to release the advance 2Q15 GDP estimate on Thursday, and our in-house models suggest that the economy expanded above 2.0% throughout the quarter. These models incorporate additional data for the second quarter that has been released since early July. Based on what we have seen so far for 2Q, business inventories and consumption appear to be the strongest drivers of growth. However, we do not have June data for either of these components, and some leading indicators suggest a weaker end to the quarter. For instance, the 0.6% decline in real retail sales for June suggests a similar drop in real personal consumption expenditures, likely to be reflected in the second 2Q GDP estimate once the data are officially released. Residential investment also seems to have picked up for the quarter, coming from an extremely weak start to the year, and June's third consecutive monthly jump in building permits hints at continued improvement ahead. On the nonresidential side, investment lagged throughout most of the quarter but rebounded in June, with nondefense capital goods orders (excluding aircraft) closing out the quarter on a strong note. Furthermore, we expect that investment in the energy sector will continue to decline throughout the remainder of 2015. Finally, the real trade balance has deteriorated slightly but not enough to significantly surprise to the downside.

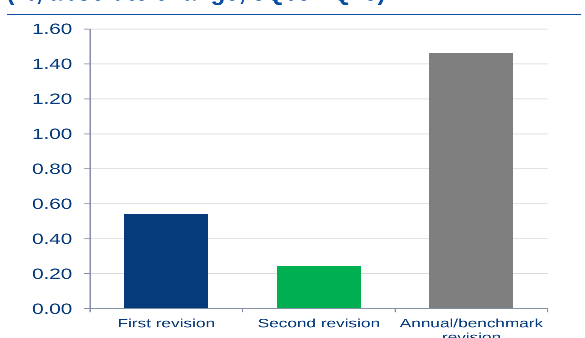
Despite what the current economic data imply, the 2Q GDP forecast may be skewed by the BEA's annual benchmark revisions, which this year include adjustments to seasonality factors on top of the usual three-year revisions. These annual revisions have on average adjusted quarterly GDP by approximately 1.5% in absolute terms. The revisions to seasonal adjustment factors may shift the notoriously weak first quarter rates and therefore could impact annual growth, especially our forecast for 2015. Regardless of these statistical adjustments, we maintain our expectations for increased momentum in the second half of the year, assuming stable global economic conditions and limited volatility related to Fed normalization.

Chart 1
BBVA Research USA Monthly Activity Index & Real GDP (4Q % Change)



Source: BEA & BBVA Research

Chart 2
Average Revisions to Quarterly GDP (%, absolute change, 3Q65-1Q15)



Source: BEA & BBVA Research

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