

Economic Analysis

U.S. Real GDP Growth Nowcast: 1.14% for 3Q15

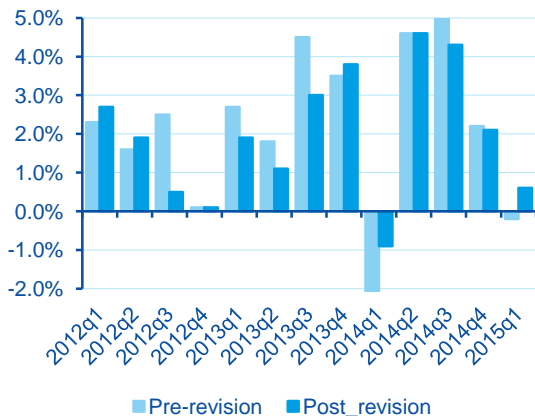
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- **MIFUS model nowcasts 1.14% for 3Q15 real GDP growth**
- **Nowcast incorporates BEA's revised GDP data since 2012, including better 1Q figures**
- **Consumer expectations significantly deteriorated in July's survey, dragging down the nowcast**

Our Mixed-Frequency Model for the U.S. ([MIFUS](#)) suggests a real GDP growth rate of 1.14% QoQ SAAR for 3Q15, down from the BEA's estimated 2.32% for 2Q15. The forecast incorporates recent data updates on employment in the private sector and consumer confidence survey, as well as the updated data based on the BEA's historical benchmark revisions.

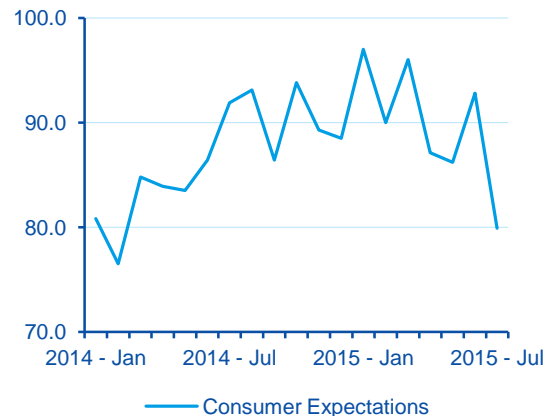
Nowcasting models have recently gained increasing popularity among economists and policymakers, the Atlanta Federal Reserve's GDPNow model being the most notable one. The idea of nowcasting in economic forecast is to continuously revise a quarter forecast (e.g. real GDP growth rate), using the information extracted from monthly variables (e.g. payroll data). Since the goal of nowcasting models is to track the economy as timely as possible, forecasts made on different dates on the same quarter can be very different due to the volatility of high frequency data. It is important to remember that this estimate only incorporates data for the third quarter thus far, and as such, is lower than our official forecast for the quarter.

Chart 1
GDP Growth before and after the Annual Revision (QoQ SAAR %)



Source: BEA & BBVA Research

Chart 2
Consumer Expectations



Source: The Conference Board & BBVA Research

The BEA revised the calculation of GDP in their 2015 Annual Revision of the NIPAs. As revealed in Chart 1, the revised data show less dramatic economic contractions in first quarters than their pre-revision counterpart. For instance, the growth rate was revised from -2.1% to -0.9% in 1Q14, and from -0.2% to 0.6% in 1Q15. Such

revision may be a response to the debate of “residual seasonality” earlier this year, when many economists tried to explain persistently sluggish economic growth in the first quarter since 2012.¹

Other factors influencing the 3Q15 MIFUS estimate include the Consumer Expectation Index, which plummeted from 92.8 in June to 79.9 in July (Chart 2), the lowest level over the last 17 months. This sharp decline in consumers' expectations for the next six months may signal that consumers have become less optimistic following economic issues in global markets. Since consumption consists of more than two thirds of domestic GDP, the growing cautiousness of consumers is captured by the MIFUS model, leading to a modest forecast for 3Q15.

Currently, our forecast is in line with the Atlanta Federal Reserve's GDPNow model, which also predicts a modest growth rate of 1.3% for 3Q15 (August 18th). It is worth noting that we will update our forecast upon official releases of monthly data for July and August, and our forecast may change due to the volatility of high frequency data.

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¹ For more discussion on residual seasonality, please refer to our article on June 12, “Another strong rebound in GDP for 2Q15? Maybe not as strong as in 2014”.