Economic Analysis

Consumption Still in the Driver's Seat for GDP

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- **Real GDP growth in 2Q15 was revised from 2.3% QoQ SAAR to 3.7%**
- **Nonresidential investment crossed back into positive territory despite weakness in energy**
- **Robust 2Q GDP doesn't offset recent volatility in financial markets in Fed's mind**

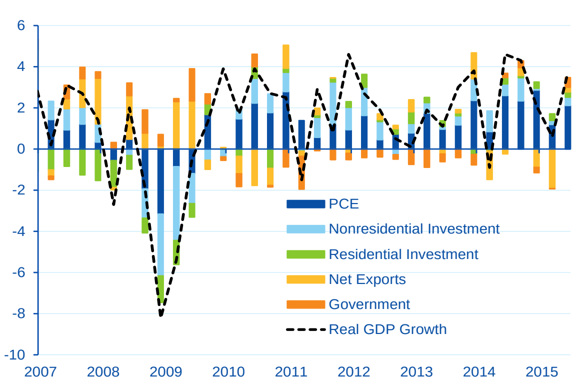
The second estimate for 2Q15 real GDP growth was revised up to 3.7% QoQ SAAR from the initial 2.3% pace. Most major components shifted upward, with nonresidential investment reflecting the biggest improvement, up 3.2% compared to a 0.6% contraction in the first estimate. Despite the 68.3% drop in mining exploration, strength in manufacturing and power and communication pulled investment in structures into positive territory, though equipment remained slightly negative for the quarter. Unfortunately, the renewed decline in oil prices limits potential growth in nonresidential investment throughout the rest of this year and into 2016 as well.

On the bright side, oil prices appear to be having a positive impact on consumers as personal consumption expenditures continue to drive GDP growth. PCE was revised up from 2.9% to 3.1% on account of stronger demand for goods (mostly autos and recreational goods) as the start of summer gave way to improved confidence and expectations. This robust growth should continue into the second half of the year, helping to fuel above 3.0% growth in the third and fourth quarters.

Although this revised GDP report is a welcome surprise in a sea of economic uncertainty, the data are not likely to have much of an impact on the upcoming Federal Reserve rate hike decision. The lagged 2Q15 GDP data merely confirm a strong rebound from the weak first quarter but do not change the volatility we have seen in recent weeks. The Fed continues to see risks as tilted to the downside, mostly stemming from global concerns, and even though domestic activity has improved, our economy remains vulnerable to outside shocks. These risks to growth will be important to monitor as we move through the second half of this year, holding onto our expectations for 2.5% growth in 2015.

Chart 1

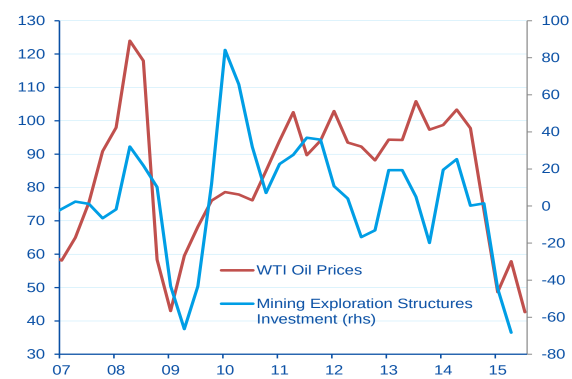
Real GDP Growth & Contributions (QoQ SAAR % Change & Percentage Points)



Source: BEA & BBVA Research

Chart 2

Investment in Mining Exploration & Oil Prices (SAAR % Change & $/Barrel)



Source: BEA, EIA/WSJ, & BBVA Research

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