

Economic Analysis

# 3Q15 Growth Slows to 1.5% as Expected

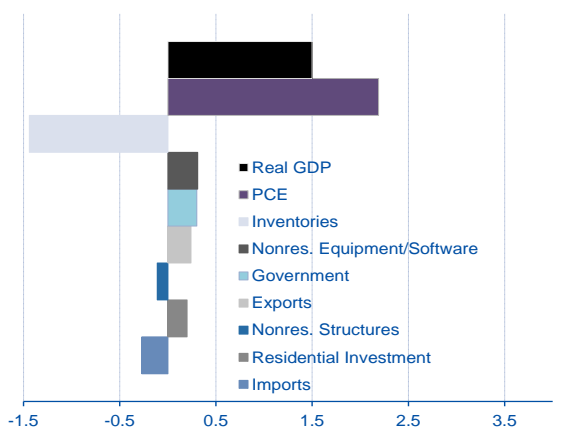
Kim Chase

- **Real GDP growth increased only 1.5% QoQ SAAR in 3Q, matching our Nowcast estimate**
- **Change in private inventories was the biggest drag, subtracting 1.44pp from growth**
- **Stronger GDP expected for 4Q, in line with our expectations for 2.5% annual growth**

Economic growth is falling right in line with our expectations, posting only modest growth following a stronger-than-expected 2Q15. According to the BEA’s advance estimate, real GDP growth increased 1.5% QoQ SAAR in 3Q15, matching our [Nowcast](#) projection for the quarter. As expected, personal consumption continues to be the strong and steady driver of growth, up 3.2% in 3Q following a 3.6% boost in 2Q, led primarily by durable goods expenditures. Most other components were also positive, with nonresidential investment up 2.1% despite a 4.0% decline in structures (led by another drop in mining exploration, shafts, and wells). Residential investment also increased, though the 6.1% pace was the weakest since 3Q14. Export and import growth both reflected an overall slowdown in international trade, up only 1.9% and 1.8%, respectively, following much stronger growth in previous quarters.

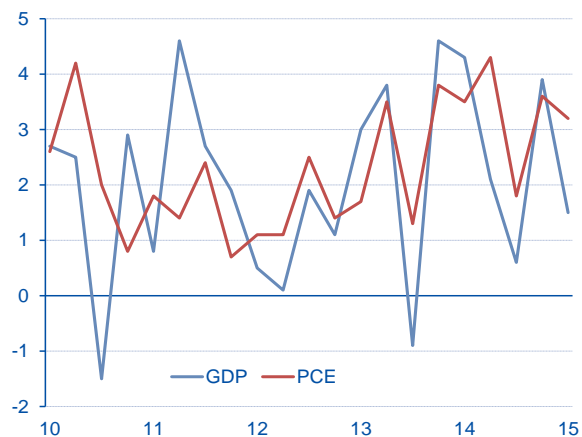
The biggest drag on growth came from the change in private inventories – no surprise given the massive slowdown in the monthly data for total business inventories, mostly coming from the manufacturing sector. The 56.7% decline from last quarter is the largest QoQ downturn since 3Q11, leading to a 1.44 percentage point subtraction from real GDP growth. Slowing global demand on top of a stronger USD certainly had its impact on domestic businesses in the third quarter, though it is likely we will see a rebound in inventories throughout the fourth quarter due to the typical jump in holiday retail demand. Still, we expect that manufacturing activity will remain weak.

Chart 1  
**Contributions to Real GDP Growth (3Q15 Advance, SAAR Percentage Points)**



Source: BEA & BBVA Research

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



Source: BEA & BBVA Research

Looking ahead, we expect that activity will improve modestly in 4Q15, particularly on the back of robust consumption for the holiday season. Also, the risk of a government shutdown (with the potential to impact growth) has declined significantly now that Congress is on the brink of a 2-year budget and debt ceiling agreement. This should pave the way for above 2.0% growth for the end of 2015, despite the fact that we are still experiencing a drag from the energy sector. For the year, we are on pace to reach 2.5% growth, a slight boost from 2014's 2.4% pace.

**DISCLAIMER**

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.