Economic Analysis

3Q15 Growth Slows to 1.5% as Expected

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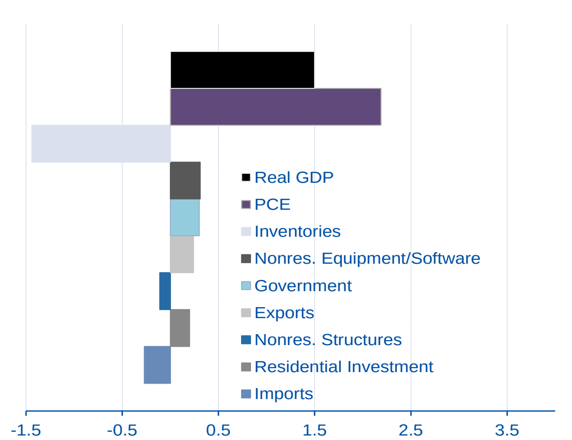
- **Real GDP growth increased only 1.5% QoQ SAAR in 3Q, matching our Nowcast estimate**
- **Change in private inventories was the biggest drag, subtracting 1.44pp from growth**
- **Stronger GDP expected for 4Q, in line with our expectations for 2.5% annual growth**

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.

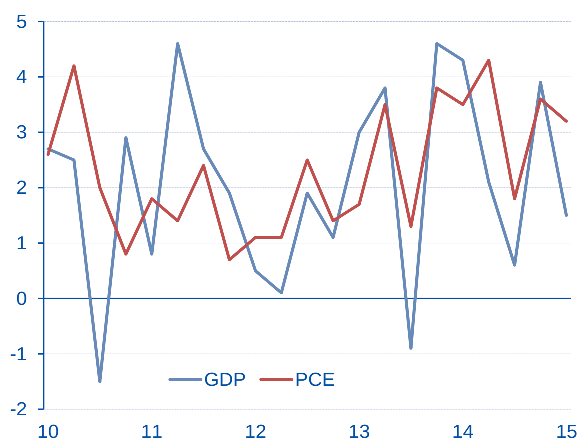
The biggest drag on growth came from the change in private inventories – no surprise given the massive slowdown in the monthly data for total business inventories, mostly coming from the manufacturing sector. The 56.7% decline from last quarter is the largest QoQ downturn since 3Q11, leading to a 1.44 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.