

Economic Analysis

3Q15 GDP Revised Upward from 1.5% to 2.1%

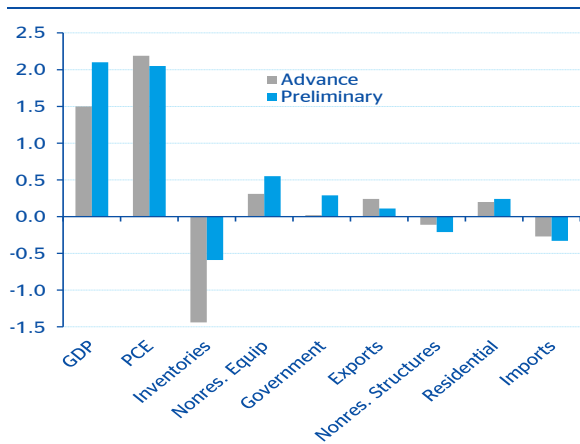
Kim Chase

- **Inventories, nonresidential equipment investment, and government spending drove upward revision to 3Q real GDP growth**
- **Personal consumption expenditures revised down from 3.2% to 3.0% QoQ SAAR, but trends still healthy moving into 4Q15**
- **Incoming data remain in line with our projections for 2.5% growth in 2015**

Third quarter growth does not appear to be as gloomy as we thought a few months ago, at least according to the BEA's latest report. Real GDP growth was revised up to 2.1% QoQ SAAR from 1.5% in the advance estimate, reflecting improvements in nonresidential equipment investment and government spending. Private inventories also had less of a drag on growth than originally expected, though the contribution was still negative. Contributions from both exports and imports were revised downward on account of ongoing weakness in the global economy, and we do not expect to see much improvement in the coming quarters given the strength of the USD. Surprisingly, personal consumption expenditures were revised down slightly from 3.2% to 3.0% QoQ SAAR, yet we remain optimistic on the overall strength of domestic consumption.

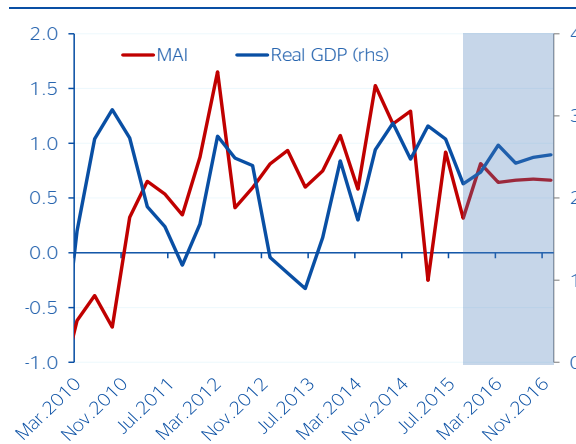
Upward revisions to 3Q15 growth should boost momentum moving into the fourth quarter. Economic releases will be closely watched as we approach the Fed's meeting at the end of the year, and so far we are seeing at least some modest improvements. Robust personal spending will carry over into 4Q15, driving growth through the holiday shopping season. On the downside, private inventory growth is likely to be limited as businesses remain cautious in preparation for 2016, speculating on various unknowns including interest rates and global demand. Overall, our GDP Nowcast and other in-house models suggest 4Q growth between 2.5% and 3.0%, bringing us to an annual average of 2.5% for 2015.

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



Source: BEA & BBVA Research

Chart 2
Real GDP Growth and BBVA Research Monthly Activity Index (4Q % Change)



Source: BEA & BBVA Research

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