

Economic Analysis

4Q15's 0.7% Pace Closes out 2015 at 2.4%

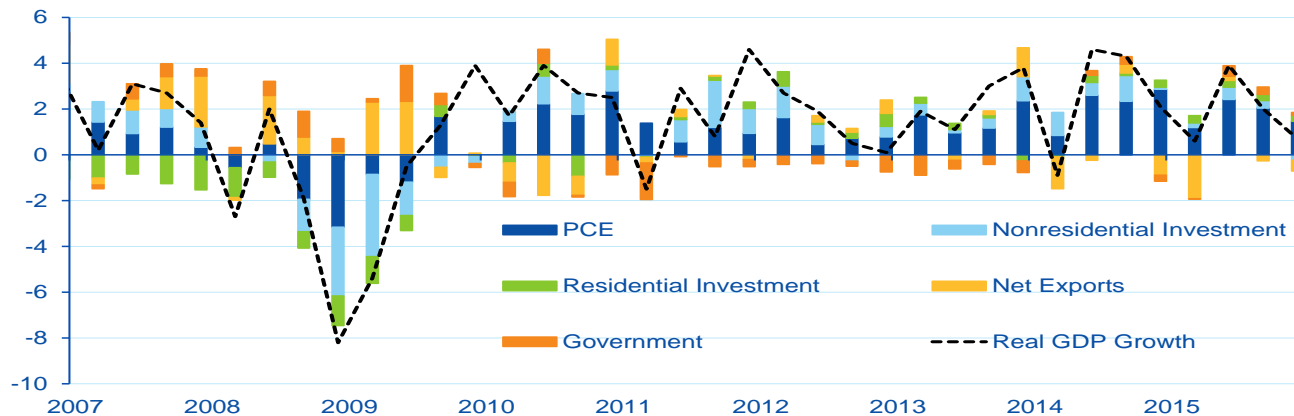
Kim Chase

- **Real GDP growth slowed to a 0.7% QoQ SAAR pace in 4Q15, down from 2.0% in 3Q15**
- **Annual investment in mining declined 35%, marking the worst year since 1986**
- **Despite 1Q16's shaky start, we maintain our expectations for a solid 2.5% pace in 2016**

The first estimate for 4Q15 surprised slightly to the downside, coming in at a mere 0.7% QoQ SAAR following a 2.0% rise in 3Q15. The usual suspects were at play, with strength from the domestic consumer offsetting ongoing (and increasing) weakness in global demand and business investment. Personal consumption expenditures increased 2.2% QoQ SAAR, slower than the pace seen in the previous two quarters but respectable nonetheless. External demand, on the other hand, continues to drag on U.S. growth, with exports down 2.5% and marking the worst quarter since 1Q15's 6.0% drop. Nonresidential fixed investment fell for the first time since 3Q12 on account of declines in both structures and equipment. Investment in structures for mining exploration, shafts, and wells declined a massive 38.7% for the final quarter of 2015, with the annual average for the component dipping to the lowest point seen since 1986. A modest 0.7% boost from government consumption helped to offset weakness elsewhere.

Today's report closes out annual growth at 2.4% for 2015, matching 2014's pace and supporting our view for stabilizing economic growth around this "new norm" below 3.0%. While we continue to expect domestic consumption to lead growth in the next few years, the more prolonged issues stemming from a strong USD and lagging investment in the energy sector will remain risk factors to monitor, especially considering the shaky start we have already seen in 2016 thus far. We expect that growth will remain volatile on a quarterly basis, particularly with many seasonality issues still lingering for first quarter figures. Regardless, we maintain our expectations for growth to stay near 2.5% in the coming years.

Chart 1
Real GDP Growth and Contributions
(QoQ SAAR % Change and Percentage Points)



Source: BEA & BBVA Research

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