

Economic Analysis

1Q16 real GDP growth decelerates to 0.5%

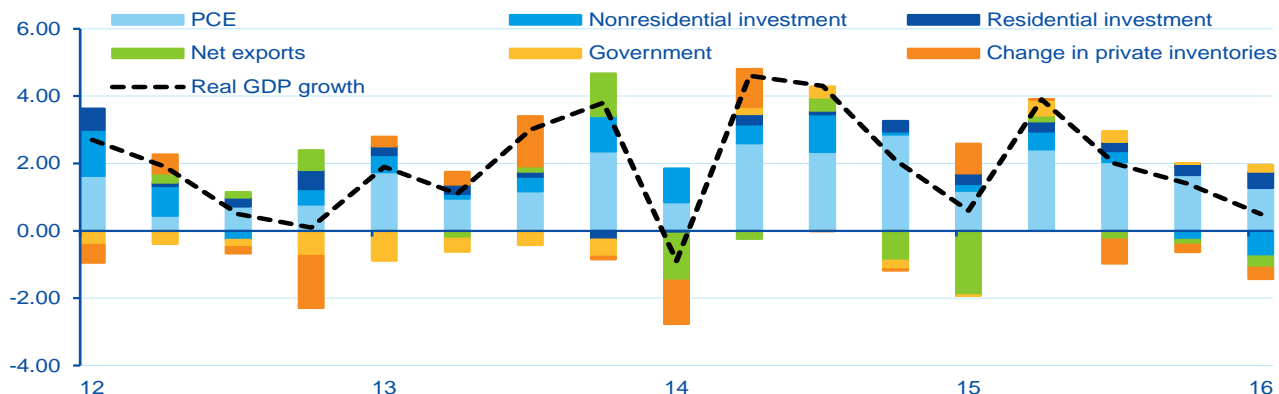
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- **Real GDP growth slowed to a 0.5% QoQ SAAR pace in 1Q16, down from 1.4% in 4Q15**
- **Residential investment was the primary positive driver, up 14.9%**
- **We maintain our expectations for a 2.5% pace in 2016, assuming a healthy rebound in 2Q**

The first estimate for 1Q16 came in at a mere 0.5% QoQ SAAR following a 1.4% rise in 4Q16. This is the slowest pace since 1Q14. While the decline was expected, it still surprised to the downside as consensus expectations stood at 0.7%. While domestic consumer spending remained solid, it decelerated from 4Q15's rate and was not able to fully offset the ongoing and increasing weakness in global demand and business investment. Personal consumption expenditures increased 1.9% QoQ SAAR, slower than the pace seen in the previous three quarters. External demand continues to drag on U.S. growth, with exports down 2.6%, marking the worst quarter since 1Q15's 6.0% drop. The relative strength of the U.S. dollar in the first quarter also likely contributed to this, though the recent depreciation should help ease pressures from net exports in 2Q16. Nonresidential fixed investment fell for the second quarter in a row on account of strong declines in both structures and equipment. Investment in structures for mining exploration, shafts, and wells declined a massive 86%, after a 39.6% decline in the final quarter of 2015, as a result of curtailed investment due to low oil and gas prices. Other positives in the report were the 14.9% increase in residential investment (following a 10.1% increase in 4Q15) and the 1.16% increase in government consumption, which helped offset weakness elsewhere.

While we continue to expect domestic consumption to lead growth in the next few years, the more prolonged issues stemming from slow global demand and lagging investment in the energy sector will remain risk factors to monitor. We expect that growth will remain volatile on a quarterly basis, particularly with many seasonality issues still lingering for first quarter figures. Residual seasonality is still an issue, with first quarter numbers showing more weakness compared to other quarters. Overall, we maintain our expectations for growth to stay near 2.5% in 2016, assuming a healthy rebound in 2Q16 and beyond.

Chart 1
Real GDP growth and contributions (SAAR % change and percentage points at annual rate)



Source: BEA & BBVA Research

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