

Economic Analysis

Growth disappoints in 2nd quarter

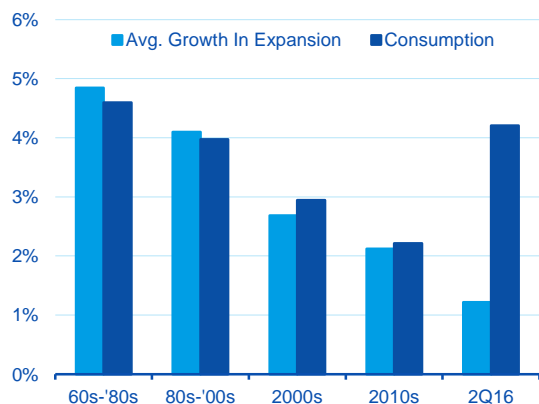
Boyd Nash-Stacey

- U.S. economy grew 1.2% in the 2nd quarter, in the face of tepid investment
- Consumer keeps economy from brink of recession, but risks remain

The U.S. economy continued to sputter in the second quarter, growing 1.2% QoQa, which was slightly higher than the downwardly revised estimate in 1Q16 of 0.8% QoQa. Despite the consumer doing its part, business fixed investment and government spending dropped from the first quarter, shaving 1.8pp off growth. For consumption, the 4.2% increase from one quarter ago was the highest increase since 2014. Yet, the 3pp gap between consumption and overall growth was the largest in over five years, underlying the bifurcation between domestic investment and consumption. Given conditions abroad and the low oil price environment, there is unlikely to be any major surprise to the upside in 2H16 if the consumer, which now enjoys greater purchasing power from low inflation and cheaper gasoline, is being netted out by weakness in the manufacturing and mining sectors. Adding to the cyclical frictions to business fixed investment is continued underinvestment by the federal government and the private sector.

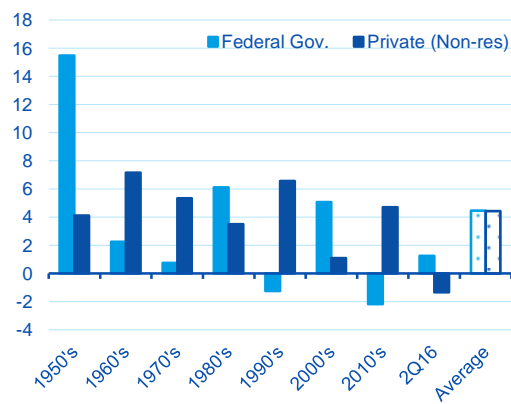
The surprise to the downside in the second quarter leaves the U.S. vulnerable, as weakening in global economic conditions could push the economy closer to recession. Much of the goods-producing sector and a handful of states remain either dangerously close to a downturn or in recession. In fact, thirteen states saw growth decline over the first quarter with the economies of North Dakota, Wyoming and South Dakota contracting by 11.4%, 4.9% and 2.8%, respectively. Similarly, considering industry-based contributions to GDP, the manufacturing sector and support activities for the mining sector are still suffering from low oil prices and the strong dollar. These pressures are unlikely to fade in the face of elevated global uncertainty and a glut of refined petroleum products. Moreover, high levels of uncertainty domestically will limit any upside for 2H16, as periods of uncertainty are associated with growth rates that are 2pp lower. Ultimately, this gives FOMC doves ammunition for the September meeting.

Chart 1
GDP growth & consumption in expansions
(annualized quarter-over-quarter, %)



Source: BEA & BBVA Research

Chart 2
Real federal & private investment
(year-over-year, %)



Source: BEA, BLS, U. of Michigan & BBVA Research

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