Economic Analysis

2016 GDP Growth: Possibly Slowest in 7 Years

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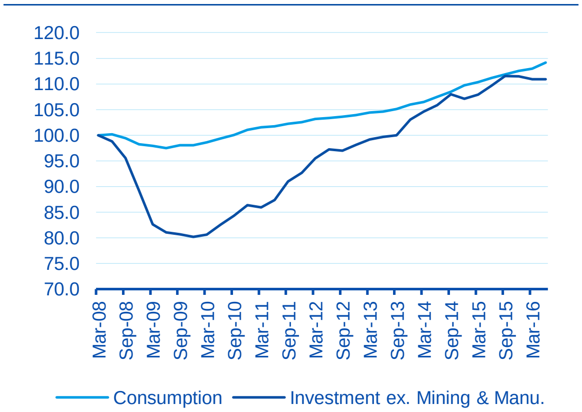
- **Cacophony of factors weighed on 1H16 GDP growth**
- **Prospects for 2H16 remain solid, but damage is done**
- **Based on the weak first half and data revisions, growth is unlikely to exceed 1.6% in 2016**

The latest economic indicators suggest that GDP growth in the third quarter will show a healthy rebound after three quarters of around 1% growth. This reflects solid support from personal consumption expenditures and a rebound in residential investment, coupled with ongoing pressures on private investment, foreign trade and government spending. Moreover, prospects for the fourth-quarter are similar in that headwinds should continue to abate. That being said, after two consecutive quarters of weak growth–both of which have been revised down after the initial release- the die is cast, and as a result our expectations are for growth of 1.6% in 2016.

Although personal consumption is unlikely to grow as briskly in 2H16, strong fundamentals such as ongoing job and income gains, strong balance sheets and solid credit growth will continue to support household spending. However, the wildcard continues to be if and when private investment will rebound. In fact, private investment has declined for three consecutive quarters, something usually seen in only recessions, reflecting slowing corporate profits, low demand expectations, high levels of uncertainty and the decline in single-family construction, all of which are likely to continue. At the same time, the liquidity squeeze and ongoing restructuring in the mining sector continue to generate headwinds for investment in transportation equipment and machinery.

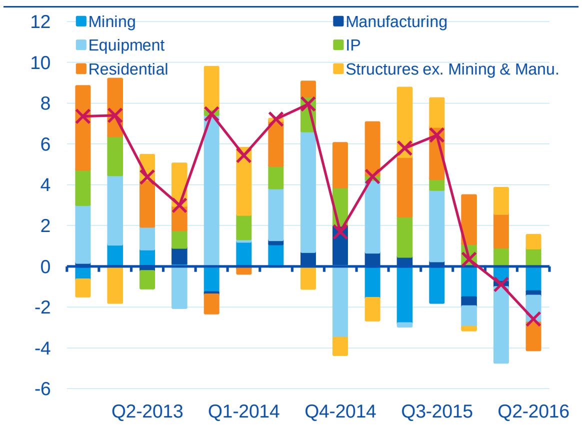
However, after inauspicious signs in 2Q16, private investment in multifamily structures, industrial equipment, intellectual property and nonresidential structures excluding mining are likely to continue edging up. In addition, it appears the drop in inventories —tied to the transportation sector and the slowdown in mining activity and commodity glut— could be bottoming out. If that is the case, the economy will not experience the sharp drag from the inventory correction going forward. Exports could also improve with less pressure on the dollar and stronger global demand, at a time when imports are likely to remain subdued.

Chart 1
Consumption & Investment, Index: 2008=100



Source: BBVA Research / BEA

Chart 2
Real Private Investment, QoQa contribution



Source: BBVA Research / BEA

Bottom Line

Despite ongoing signs of a more upbeat 2H16 the downward revision to 1Q16 (from 1.1% to 0.8% SAAR) and the weak growth rate in 2Q16 (1.1% SAAR; revised down from 1.2%) imply that even with a more decent performance during the second half of the year, annual average growth will be slower than anticipated. As a result, our expectations are now for GDP growth of around 1.6% in 2016. Beyond that, we continue to expect growth to progress at a moderate pace near potential.