

U.S. GDP Flash

Economy Growth Surprises to the Upside in 3Q12 GDP

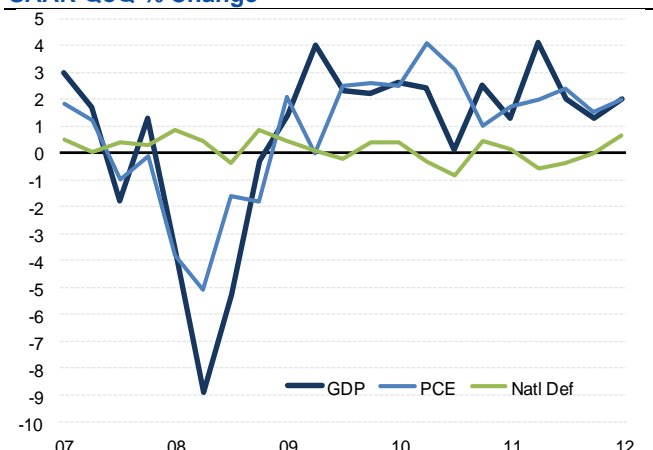
- Increased housing market activity, defense spending, and personal consumption lead the 2.0% SAAR jump in GDP growth for 3Q
- The trade balance was a disappointment as large trading partners still struggle
- Fiscal cliff still looms, pessimism and uncertainties for 4Q

The first estimate for 3Q12 real GDP growth surprised to the upside as the U.S. saw a 2.0% increase in economic activity on a QoQ seasonally-adjusted annualized basis. Consumer and government expenditures were responsible for most of the boost, on top of the strong housing data that we have seen in recent months. Residential spending rose 14.4% in the third quarter on better-than-expected sales and new home construction, with the still low rates encouraging home ownership. Another positive blip on the GDP radar was consumer spending, with personal consumption expenditures up 2.0%. The increase was mostly due to durable goods, which rose 8.5% on moderate retail sales and big ticket purchases including home and vehicle sales. Although consumer spending on foreign products did decline, it was the drop in exports into negative territory that imposes some worries on how the rest of the world is dealing with the slowing global economy and whether or not this lack of exports will persist into 4Q12.

The increase in government spending was the biggest surprise, up 3.7% QoQ SAAR for the first time in more than two years. This likely reflects the significant upward revisions we have seen to government payrolls in the third quarter. National defense spending was the driver here, increasing 13.0%, while spending at the state and local level continued to decline. While there is some skepticism over the data due to the unnaturally high level of government spending that enhanced GDP figures for the quarter, the argument can be made that there would still have been moderate growth from the consumer side without the boost from federal defense.

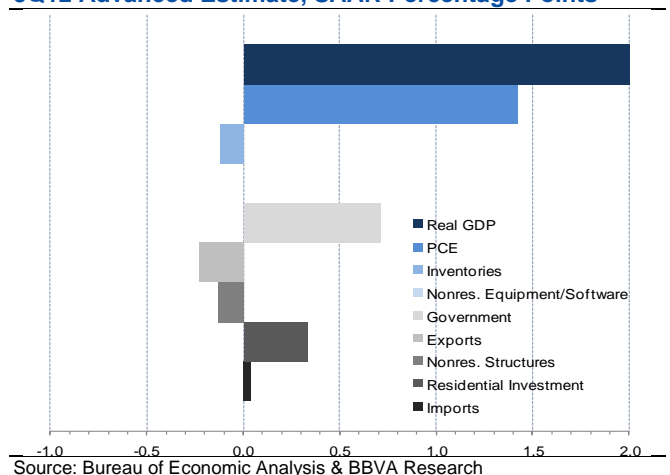
Overall, 3Q data on the housing market and personal spending do attest to a recovery in progress in the US, hopefully bolstered by QE3 through the end of the year. However, the question still remains whether or not this growth is sustainable or whether uncertainties related to the fiscal cliff and global slowing will weigh on activity throughout the end of 2012 and into 2013.

Chart 1
U.S. Real GDP, PCE, and National Defense Spending SAAR QoQ % Change



Source: Bureau of Economic Analysis & BBVA Research

Chart 2
Contributions to Real GDP Growth 3Q12 Advanced Estimate, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

Kim Fraser
kim.fraser@bbvacompass.com
+1 713 831 7345

Alejandro Vargas
alejandro.vargas@bbvacompass.com
+1 713 831 7348

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.