

U.S. GDP Flash

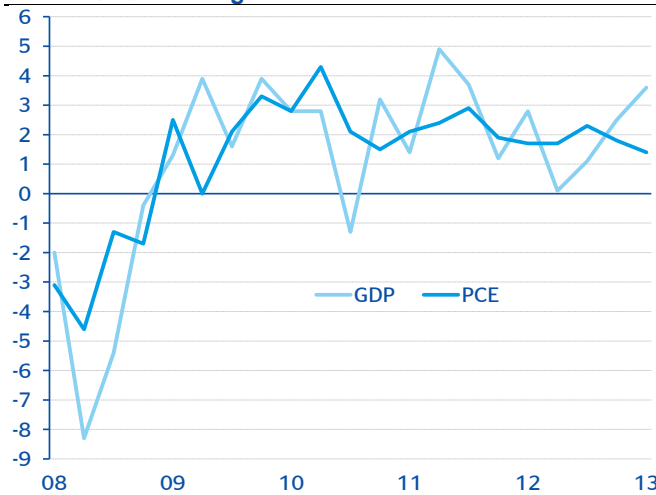
GDP Growth Revised to 3.6% in 3Q13 as Inventories Surge

- GDP revised up from 2.8% to 3.6% as the contribution from inventory growth doubles
- Key drivers of the recovery remain soft, including consumer and residential activity
- Weaker growth expected for 4Q13, in line with our annual forecast of 1.6%

The second estimate for 3Q13 real GDP growth reflects a similar trend that has been set with other economic indicators: strength at face value but weakness in the underlying details. Growth was revised up from the first estimate of 2.8% QoQ SAAR to a surprising 3.6%, the highest rate since early 2012. Our expectations were quite different for the headline figure, but aside from underestimating inventory growth the details were in line with our projections. Export growth was revised down (from 4.5% to 3.7%) and import growth shifted upward (from 1.9% to 2.7%) as a result of the worse-than-expected trade data in September. Personal consumption and residential investment, two important drivers of the recovery, were also revised down in the second estimate. The kicker in this GDP report was inventory growth, which was revised up significantly despite the fact that demand conditions did not improve. In fact, the contribution to GDP from the change in private inventories actually doubled, from 0.83 to 1.68 SAAR percentage points.

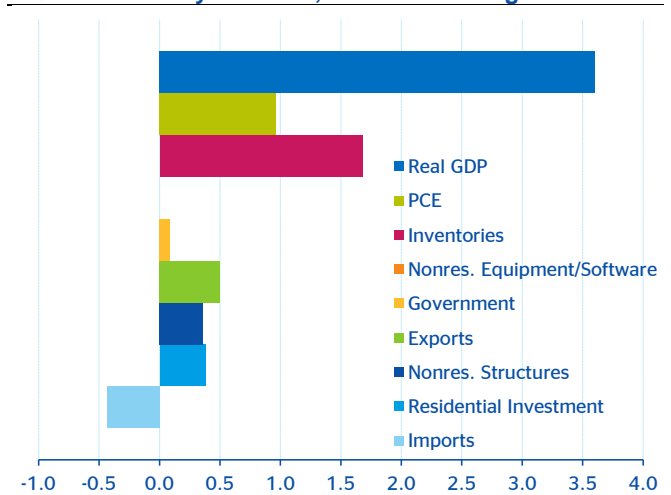
Given this somewhat misleading report, the story for 4Q13 is still very much up in the air. With significant inventory build, the question remains how successful businesses will be in managing this growth. So far, consumer activity for the fourth quarter has not been overly impressive, and it is unlikely that businesses will continue producing without a significant pickup in demand. Furthermore, the outlook for residential activity is not extremely uplifting given that rising home prices and mortgage rates have hurt homebuyer demand for the time being. We will likely see a positive shift in exports for 4Q13, but this will certainly not be a driver of growth for the quarter as global demand remains soft. Overall, our expectations are for a slower 4Q13 in line with our forecast for 1.6% growth in 2013.

Chart 1
**U.S. Real GDP and Personal Consumption Expenditures
SAAR QoQ % Change**



Source: Bureau of Economic Analysis & BBVA Research

Chart 2
**Contributions to Real GDP Growth
3Q13 Preliminary Estimate, SAAR Percentage Points**



Source: Bureau of Economic Analysis & BBVA Research

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