Economic Analysis

Unrevised 4Q GDP Raises Questions on Trends in Private Investment

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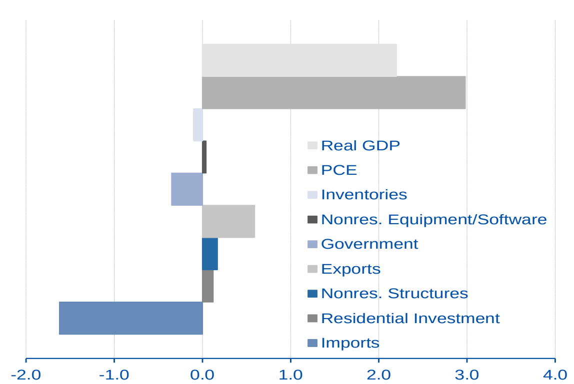
- **4Q14 growth holds at 2.2% as consumption continues to drive economic growth**
- **Business investment has just reached its pre-crisis peak despite stronger demand**
- **Future analysis will address private sector's increased sensitivity to uncertainty post-crisis**

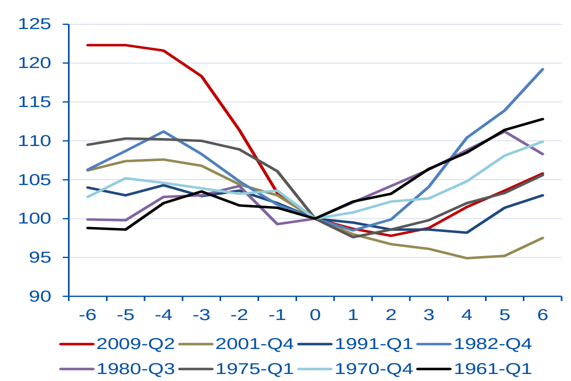
The final figure for real GDP growth in 4Q14 was unrevised from the preliminary estimate, holding at 2.2% QoQ SAAR and maintaining the 2.4% pace for the year. For the most part, this means that we can finally leave 2014 behind us and move on to a bigger and better outlook for 2015. However, it is worth taking another look at some of the underlying components and what this might mean for the future. Personal consumption has clearly been the driver of this recovery, yet business investment has lagged behind. Logic would dictate that strong consumer demand (at least domestically) would encourage increased private investment, but this has not been the case. In real terms, gross private fixed investment has just barely reached its pre-recession peak, whereas personal consumption surpassed its respective peak back in late 2010. The residential component has obviously played a large part in holding back gross private investment, but the nonresidential side has also suffered. Compared to previous recoveries, the pace of nonresidential investment has been much slower moving away from crisis lows, even though corporate profits have soared. Weakness in structures continues to overshadow business investment in equipment (information processing, industrial, transportation, etc.), though this latter component remains relatively underwhelming compared to pre-crisis trends. This could be a result of many factors, including globalization and the reduced need to replace equipment due to slower depreciation; however, there is still the underlying hesitation among businesses to fully commit to expansion. The 2008 financial crisis had a major impact on the corporate world, causing potentially permanent damage to business confidence and an increased sensitivity to uncertainty. A future analysis will tackle these issues in more depth.

Chart 1
Contributions to Real GDP Growth (4Q14 Final, SAAR Percentage Points)



Source: BEA & BBVA Research

Chart 2
Real Nonresidential Investment, Peak to Trough (Index, Trough=100)



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