

Economic Analysis

# Inventories and Exports Weigh on 3Q15 Growth

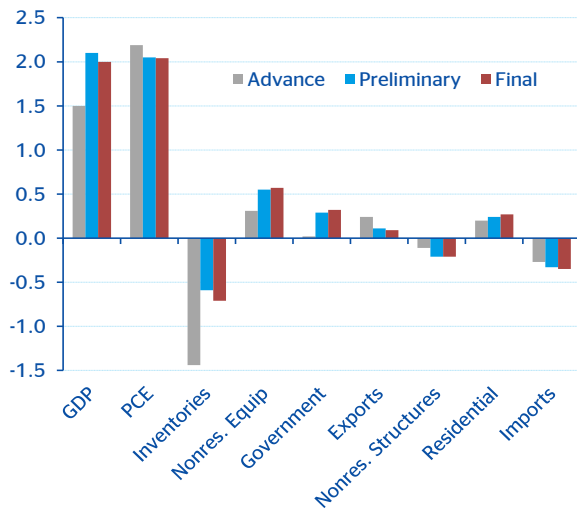
Kim Chase

- **Real GDP growth for 3Q15 was revised down from 2.1% to 2.0%**
- **Downward pressure from inventories and exports will continue in 4Q15**
- **Expectations remain for 2.5% in both 2015 and 2016**

The final estimate for 3Q15 real GDP growth came in at 2.0% QoQ SAAR, down just slightly from the preliminary 2.1% pace. As expected, the downward revision was driven mostly by a lower-than-expected contribution from business inventories, the largest drag since 1Q14. This suggests that we will see a stronger contribution in 4Q15 as businesses increase production alongside expectations for more robust demand during the holiday shopping season. However, initial data for the quarter show no change in nominal business inventories for October, limiting the upside potential to close out 2015.

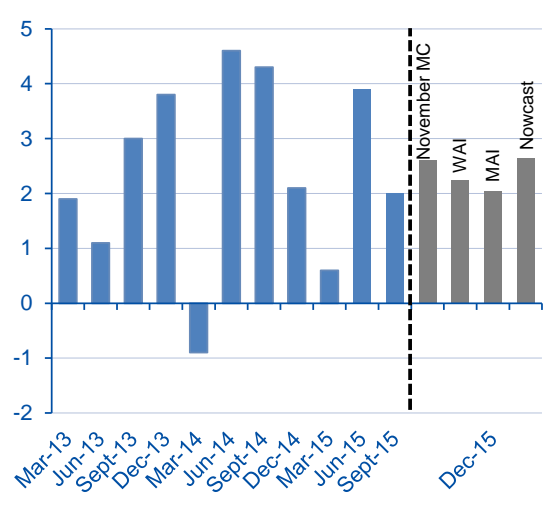
Third quarter growth was also dragged down by a revision to net exports, highlighting the ongoing weakness in global demand and the impact of the strong USD. Unfortunately, downward pressures are still lingering and there does not appear to be much upside for net exports in 4Q15 thus far. Nominal exports declined 1.45% in October, pushing down the international trade balance to -\$43.89bn. Furthermore, the USD has continued to appreciate, up 1.5% in November, adding unwanted pressure to net exports for the rest of the fourth quarter.

Chart 1  
**Contributions to Real GDP Growth (SAAR Percentage Points)**



Source: BEA & BBVA Research

Chart 2  
**Real GDP Growth Forecasts (QoQ SAAR % Change)**



Source: BEA & BBVA Research

On the bright side, personal consumption expenditures remain a steady driver of economic growth. The final estimate for consumption was unrevised at 3.0% QoQ SAAR, holding above the post-2010 average pace of 2.3%. Compared to some of the other GDP components, there is much more upside potential for consumption, particularly with such a favorable inflation environment for consumers. Also, the renewed drop in oil prices should keep gas prices low and encourage more spending elsewhere during the holiday season. Overall, we expect that 4Q15 GDP growth will show a modest improvement over the 3Q pace. Our GDP Nowcast and other in-house models suggest 4Q growth near 2.5%, keeping us in line to reach 2.5% for the year. We also expect to see a similar 2.5% pace in 2016 as consumption continues to outshine weakness in other areas.

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