

Economic Analysis

1Q16 real GDP growth revised up to 0.8%

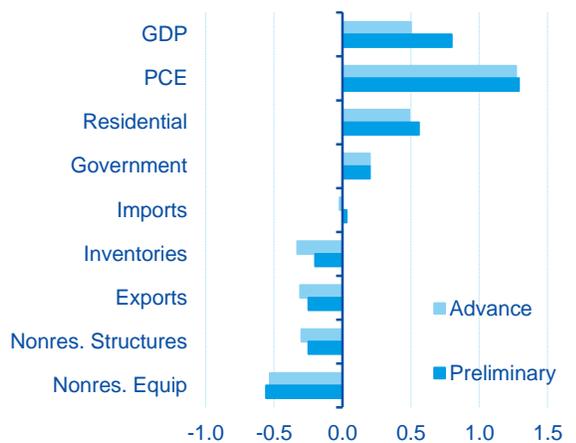
Filip Blazheski / Kim Chase

- Real GDP growth was revised to 0.8% from 0.5% QoQ SAAR, with most categories revised up
- PCE and residential investment made the greatest contribution to GDP growth
- We maintain our expectations for a 2.5% pace in 2016, assuming a healthy rebound in 2Q

The second estimate for 1Q16 came in at 0.8% QoQ SAAR, up from the initial 0.5% pace reported last month (Chart 1). Consensus expectations for the revision stood at 0.9%. While domestic consumer spending remained solid, it decelerated from 4Q15's rate and was not able to fully offset the weakness in global demand and business investment. Personal consumption expenditures increased 1.9% QoQ SAAR, slower than the pace seen in the previous three quarters. External demand continues to drag on U.S. growth with real exports down 2.0% QoQ SAAR (they also declined 2.0% in the 4Q16). The relative strength of the U.S. dollar likely contributed to this, though the recent depreciation should help ease pressures from net exports in 2Q16. Nonresidential fixed investment fell 6.2% QoQ SAAR, after also declining in 4Q16 on the account of weaknesses in the oil and gas sector (this should slow down somewhat going forward due to higher oil prices). The first quarter also saw lower investment in the manufacturing sector, likely reflecting lower business confidence due to uncertainties about global growth. A strong positive in the report was the 17.2% QoQ SAAR increase in residential investment (revised up from 14.9%), possibly buoyed by the warmer than usual weather in the first quarter, which had allowed construction to start earlier in the year in some parts of the country.

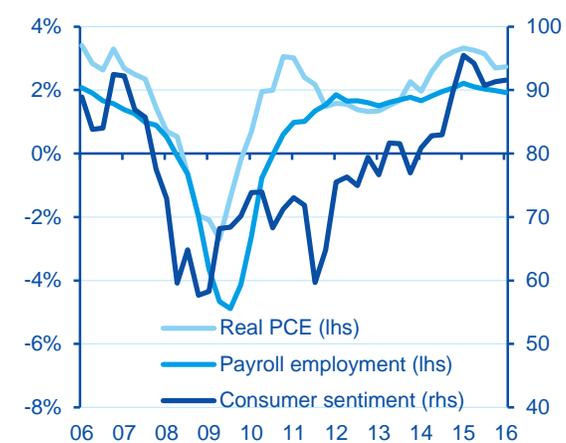
While we continue to expect domestic consumption to lead growth in the coming period due to solid labor market developments and improved consumer sentiment (Chart 2), the more prolonged issues stemming from slow global demand and lagging investment in the energy sector will remain risk factors to monitor. Overall, we maintain our expectations for growth to stay near 2.5% in 2016, assuming a healthy rebound in 2Q16 and beyond.

Chart 1
Real GDP growth and contributions
(SAAR % points)



Source: BEA & BBVA Research

Chart 2
Personal consumption, employment and consumer sentiment
(% YoY change and index)



Source: BEA, BLS, U. of Michigan & BBVA Research

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