

U.S. GDP Flash

Government Spending Cuts Outdone By Better Trade

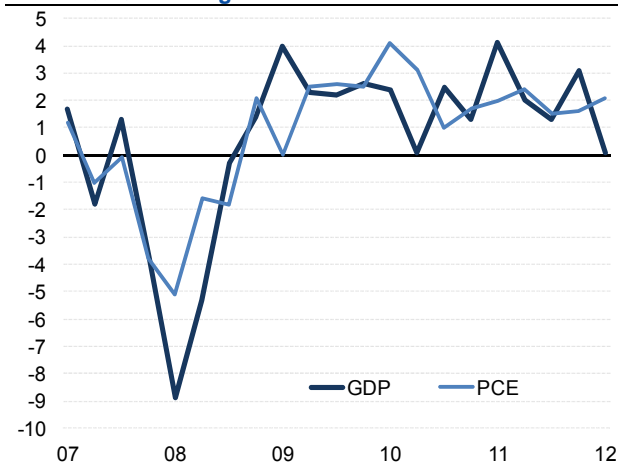
- Real GDP growth for 4Q12 revised to 0.1% from an advance estimate of -0.1%
- Government consumption and private inventory investment revised down
- More positive impact from net exports due to better year-end trade balance

After a slightly worrying negative GDP figure for the advanced 4Q12 estimate, preliminary figures show a reversal to a positive 0.1% on a QoQ seasonally-adjusted annualized basis. Government spending and private inventories had pushed down the advance figure and were revised down even further in the second report. Overall government expenditures declined 6.9% from the previous 6.6% drop in the first estimate as the initial spending cuts from fiscal negotiations were implemented. Private inventory investment was also revised down to -1.5%, though this could imply a rebuilding of inventories, and ultimately upward pressure on growth, for the first part of 2013. Personal consumption was also revised down slightly from 2.2% to 2.1%.

While the above components weighed on the 4Q12 GDP figure, other components saw more positive revisions. Final sales of domestic product were revised up to 1.7% from the prior 1.1% for the quarter, still lower than the 3Q12 figure but matching the rate seen in 2Q12. Both nonresidential and residential fixed investment contributed a bit more to GDP growth in a positive manner. The second report was also bolstered by a better trade outcome for December. The trade deficit declined on account of stronger export growth, which subsequently boosted the contribution of net exports to GDP.

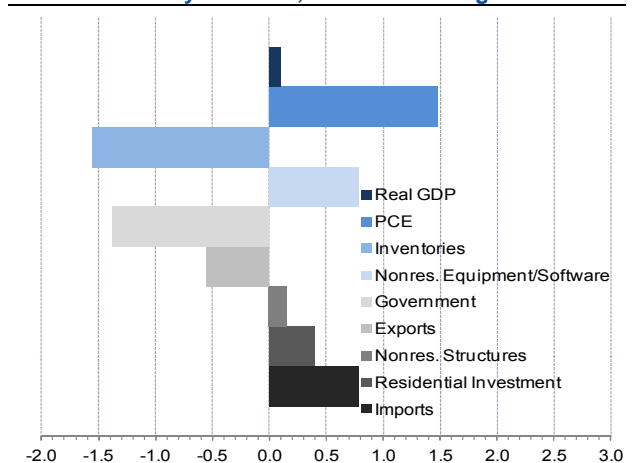
Despite the upward revision, economists are still steadfast in their belief that the figure does not fully reflect the better-than-expected trade balance. Unlikely to do much more damage, the government spending drag has been taken into account but the thorough changes in private sector growth show signs that further upward revisions might emerge in the final estimate. Overall, this does not change our expectations for 2013 growth, with some momentum carrying over into 1H13 but then a pickup in activity later in the year once businesses and consumers adjust to new fiscal measures.

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
4Q12 Preliminary Estimate, SAAR Percentage Points**



Source: Bureau of Economic Analysis & BBVA Research

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