U.S. GDP Flash

Lower Inventory Growth Offsets Gains in Consumption

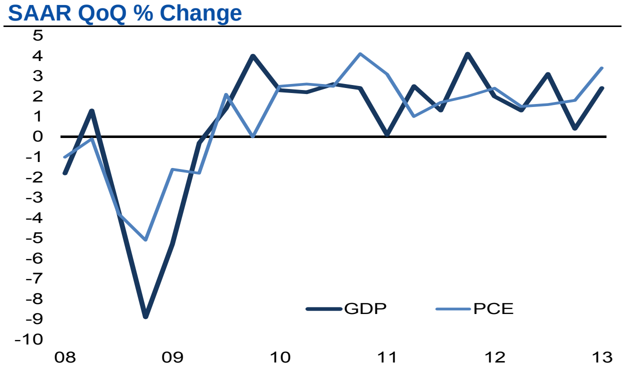
- **Real GDP growth for 1Q13 was revised downward slightly to 2.4%**
- **Government consumption and private inventory investment were revised down**
- **Personal consumption improved but was overshadowed by aforementioned headwinds**

The preliminary estimate for 1Q13 real GDP growth was revised down slightly as continuing headwinds put downward pressure on the recovering private sector. Slowing from 2.5% to 2.4% QoQ SAAR, the quarter's revisions showed a similar situation to what was expected when the first estimate was released. Inventories bore the brunt of the slowdown in this second revision having posted a large gain in the first estimate. Gross private domestic investment decelerated 3.3pp to 9%, led by nonresidential structures which rose less than previously estimated. This deceleration suggests that companies were spending less than initially thought on office building and manufacturing plants which is in line with how weary firms have been to make larger capital intensive purchases.

Government consumption and investment continues to exert added weight on GDP growth as the sequestration unfurls and federal spending curtails. The largest revision from the advanced estimate was at the state and local level which fell 2.4%. However, given the sequester's broad scope, state and local spending was not the only government sector to be revised downward. The 0.8pp decline in total government consumption was felt throughout all sub categories, with federal spending down 0.3pp from the last estimate as national defense spending took a tumble. While exports were revised downward, net exports actually shifted upward slightly given the larger than expect drop in import growth. Exports of goods were revised down from 3.5% to 0.3% but still were unable to offset imports which slowed from 5.4% to 1.9%. This follows in line with the underlying details from March's international trade report, even though the headline number was a bit more favorable than earlier in the first quarter.

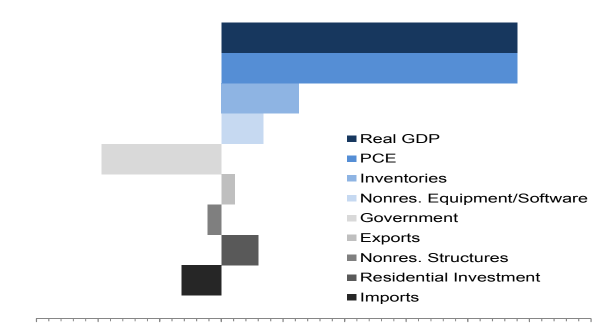
As per usual it was personal consumption which managed to remain fervently positive despite the headwinds posed by the government's self-inflicted spending curtailment and lower private investment. Personal consumption was revised upward as the consumer continues to be the driving force in the economy. Up 0.2pp to 3.4% QoQ SAAR, the increase from the first estimate was primarily in nondurable goods which rose by a full 1.2pp to 2.2%, a significant increase and an positive signal that, despite the sequester and sluggish global growth, the U.S. consumer remains resilient and hungry for economic growth. With very little data to shift the final figure in any significant direction, we expect GDP to remain around 2.4% and anticipate that it might be a bright spot in the 1H13 as current economic data does not bode well in terms of government spending or durable good and capital purchases for 2Q13.

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 1Q13 Preliminary Estimate, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

Kim Fraser
kim.fraser@bbvacompass.com
+1 713 831 7345

Alejandro Vargas
alejandro.vargas@bbvacompass.com
+1 713 831 7348

2001 Kirby Drive, Suite 310, Houston, TX 77019 USA | www.bbvaresearch.com