U.S. GDP Flash

Higher Inventories & Lower Trade Deficit Drive GDP Revision

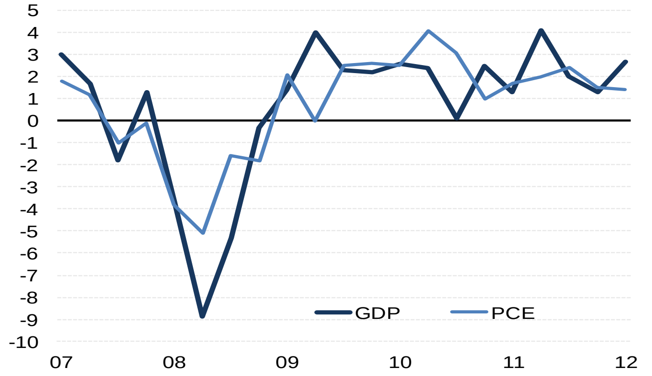
- **Real GDP growth for 3Q12 revised up to 2.7% from 2.0% in the first estimate**
- **First positive contribution from private inventory investment since 4Q11**
- **Consumption revised down to 1.4%, the lowest rate in more than a year**

After a modest advanced report for 3Q12 GDP, the revised figures for the second estimate show better than expected growth in exports and inventories offsetting slower consumption. Compared to the first estimate of 2.0% QoQ seasonally-adjusted annualized growth, the revised figure of 2.7% hints at some large changes in what was expected to be another slow quarter following an even slower one prior. One of the biggest drivers of the higher growth rate came from a better-than-expected trade balance to close out the third quarter, reflecting stronger exports and slower import growth. Another key driver of the revised GDP figure was an increase in private business inventories that increased nearly double from the advance estimate released in October. The contribution of the change in private inventories to GDP growth jumped from a decline of 0.12 percentage points in the first estimate to a positive 0.77 percentage points. Businesses were most likely preparing for a productive spending boost in the holiday season and were therefore less inclined to adjust production based on the slower consumer spending in the third quarter. Together, these positive revisions helped to offset the slow increase in household purchases, which increased only 1.4% in the third quarter (from an advance estimate of 2.0%) to mark the slowest rate seen in over a year. This ultimately hints to the explanation for inventories which may impact production in 4Q12 as companies attempt to offload some of the accumulated stockpile.

In regards to other GDP components, residential investment and government purchases were little changed from the initial estimates. Still, federal government spending maintained its large increase from the second quarter, up 9.5% on a QoQ SAAR basis. Another small change was to the GDP price index, which was lowered slightly to 2.7% from 2.8% but still showing a jump from 1.6% in the second quarter. Excluding food and energy, inflation was revised softer to 1.3% from the advanced 1.5%.

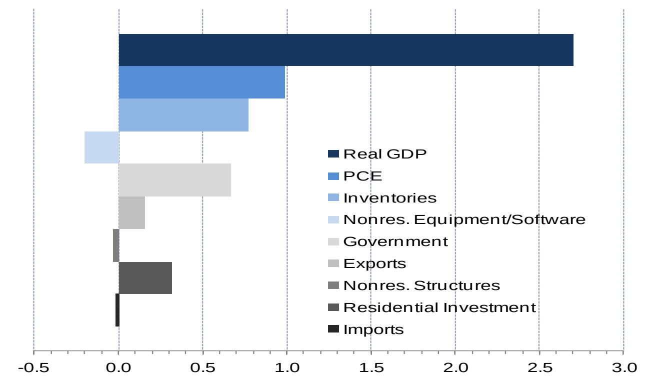
Looking ahead to 4Q12, we expect that growth will appear subdued compared to the rate seen in the third quarter. Recent data have already hinted at an impact from Hurricane Sandy, putting pressure on production and spending. Given the rising fiscal uncertainty as we approach the end of the year, businesses and consumers alike have been slow to make any major spending decisions until the path is clearer and long term spending and tax rates are known.

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 3Q12 Preliminary Estimate, SAAR Percentage Points



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