

U.S. GDP Flash

Personal Consumption and Trade Gap Drive Upward Revision

- Real GDP growth for 3Q12 revised up to 3.1% from 2.7% on better economic conditions
- Imports revised down further to -0.6% from 2Q12 while exports rise to 1.9%
- State and local government spending turns positive after 2 years of negative growth

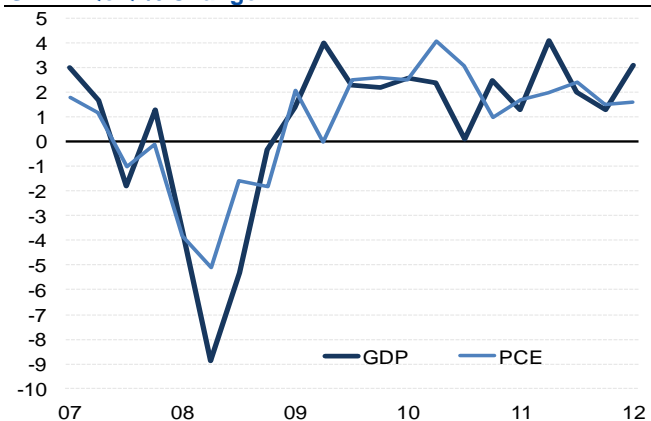
The 3Q12 GDP final report yet again surprises to the upside as GDP is revised up to 3.1% after already gaining 0.7% from advanced to preliminary reports. Driven by a shrinking trade gap and a rise in personal consumption, the final figure topped a Bloomberg survey of economists whose median estimate had 3Q12 growth at 2.8%. The aforementioned drivers showed especially strong growth from 2Q12 in addition to the revisions from the second estimate. Sales of domestic products rose 2.4% in 3Q12, up from 1.7% in 2Q12. Growth in personal consumption expenditures (PCE) also added to the momentum, primarily in the form of durable goods which rose 8.9% QoQ. Overall PCE grew from 1.4% to 1.6% in the final estimate, signaling better private spending and specifically spending in the domestic market. This also led to a noticeable increase in the contribution to GDP of personal consumption, from 0.99 percentage points to 1.12pp. Although private investment shrank slightly from the preliminary estimate, quarterly growth remained intense at 6.6%, lead by residential investment which grew by 13.5%. Final sales to domestic purchasers also topped the preliminary estimate, revised to 1.9% from the preliminary 1.7%. State and local governments also showed significant growth from the preliminary figure, rising from -0.4% to 0.3% on increased spending and infrastructure investment. This ended a 2-and-a-half year period of constant declines in the state and local levels of government in terms of investment and spending.

The trade gap also shrank as consumers chose to seek products from the domestic market rather than abroad, driving import growth down to -0.6%, revised from the preliminary estimate of 0.1%. Exports also showed strong signs of growth as they rose 0.8% compared to the preliminary estimate, resulting in a 3Q12 figure of 1.9% QoQ. The overall contribution of net exports to GDP increased from 0.14pp to 0.38pp in the final figure.

The GDP price index for both headline and core remained the same from the preliminary estimates at 2.7% and 1.3% respectively, showing minimal inflationary pressure since 2Q12. Given this significant revision to 3Q12 GDP growth and recent economic data, we have low expectations for GDP in the fourth quarter as indicators stress fiscal uncertainty and a lack of investment from businesses that are skeptical about tax issues.

Chart 1

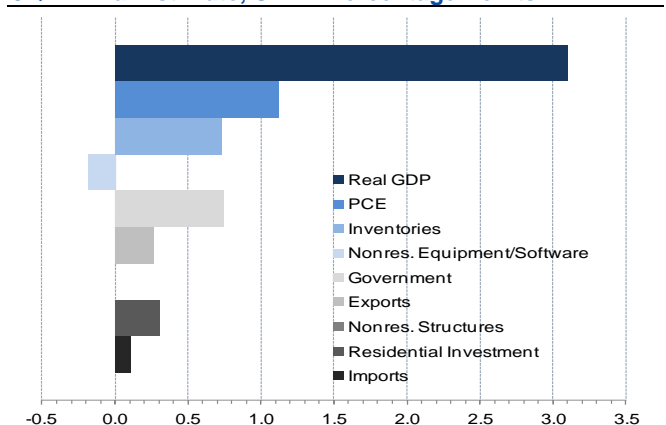
U.S. Real GDP and Personal Consumption Expenditures
SAAR QoQ % Change



Source: Bureau of Economic Analysis & BBVA Research

Chart 2

Contributions to Real GDP Growth
3Q12 Final 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

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.