

U.S. GDP Flash

Significant Drop In Federal Spending Reigns In GDP Growth

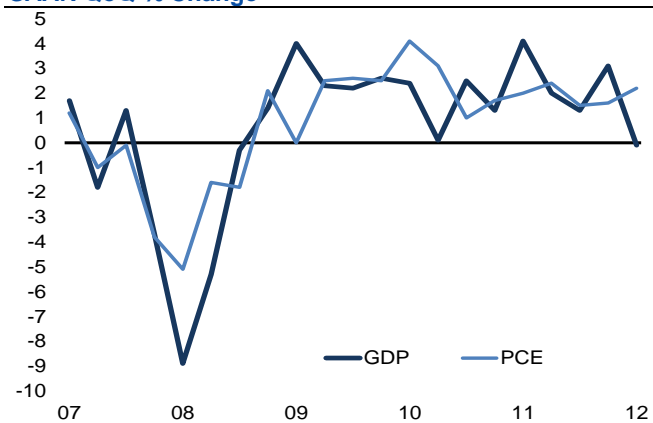
- Real GDP shrank in 4Q12 by 0.1% as government spending declined by 6.6%
- Consumption accelerated while residential and nonresidential investment jumped
- Exports and imports fell precipitously by 5.7% and 3.2%, respectively

The advanced report for real GDP growth in 4Q12 showed that the economy shrank in the last quarter leading up to 2013 as federal defense spending caused a significant drag on overall growth. Down by 0.1% on a QoQ seasonally-adjusted annualized rate (SAAR), the 6.6% decline in government spending, led by a 15% decline at the federal level, put significant downward pressure on 4Q12 GDP growth. National defense spending declined by 22.2% as the government scaled back expenditures in anticipation of the upcoming fiscal cliff sequester. Coupled with the downward pressure from the trade balance, these components were unable to offset gains in the areas that were less affected by the political sphere that occurred throughout the quarter. Exports fell quite dramatically, down 5.7% SAAR, plunging into negative territory for the first time since 1Q09. Global demand has faltered, despite the weak dollar, as U.S. trading partners' imports remain anemic. U.S. imports, however, also declined by 3.2% as businesses became more hesitant of future consumer demand and purchasing power with the threat of higher taxes in January.

Escaping from the government sphere, and you find that the numbers are relatively optimistic regarding consumer activity and the robust recovery in the housing market. Personal consumption for 4Q12 accelerated to 2.2% SAAR, continuing the ongoing upward trend from 2009, driven primarily by durable goods. The vehicles and parts cohort was the driver in goods growth up 6.1% QoQ, as the rest of the categories struggled to increase by more than 3.0% from the previous quarter. The housing market was also visibly augmented in the fourth quarter as residential investment posted a 15.3% SAAR rise amidst the recovering market. This is helping to boost prices as well which grew, according to the S&P Case-Shiller HPI, by 5.55% YoY for November.

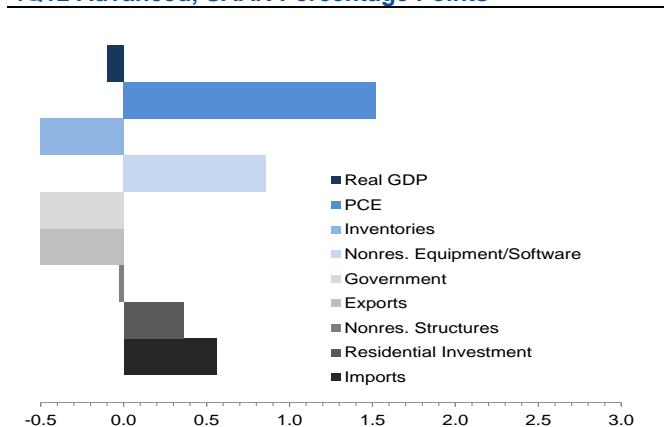
As for inflationary pressures, the GDP deflator remains low at 0.6% which is the lowest for the year, but nominal GDP was only 0.5% which leaves the US with its first negative quarterly real GDP figure since 2009. Despite this, pundits are in quiet agreement, with this being the first of 3 estimates, that a revision upwards is highly likely. With the next figure released in late February, the rest of December's pertinent data will be out to clarify in what direction the revision may go and whether or not the political atmosphere has indeed affected the economic sphere.

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 Advanced, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

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