U.S. GDP Flash

Private Investment Fuels Surprising Real GDP Growth

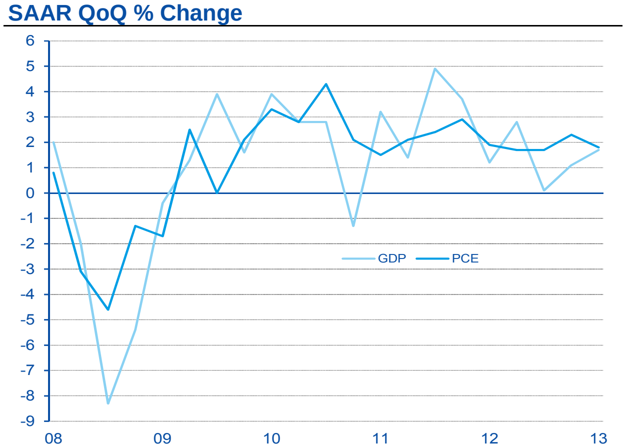
- **Real GDP growth for 2Q13 was higher than expected, up 1.7% on a QoQ SAAR basis**
- **Personal consumption and net exports declined on partially weaker consumer activity**
- **Government contribution strengthened as state & local consumption showed gains**

The advance report for 2Q13 real GDP growth showed a much better picture than expected given weaker manufacturing activity and sub-par private spending growth. In fact, the situation presented in this initial report seems to convey those notions but to a lesser extent and augmented heavily by stronger private investment. Nonresidential fixed investment reversed its 4.6% decline in 1Q13, up 4.6% in 2Q13. This is primarily due to a much stronger quarter for nonresidential structures which saw heavy declines the period prior. It is also important to note the introduction of a new component within nonresidential fixed investment related to intellectual property products. This component encompasses research and development, software, and entertainment, literary, and artistic originals, reflecting some important changes in the dynamics of the U.S. economy over time. According to the new data, intellectual property has increased throughout the past few years, up 3.8% in 2Q13. With regard to personal consumption, growth decelerated half a percent to 1.8% QoQ SAAR in 2Q13 on account of a strong deceleration in services. Durable goods consumption increased 6.5% after a drastic slowdown in 1Q13. Exports grew at a considerable 5.4% rate but were vastly overshadowed by the 9.5% jump in imports.

Over the past two quarters, the sequester and fiscal headwinds have been fueling a game of Russian roulette in terms of GDP, leaving economists slightly bewildered by its effects and when exactly the worst of the policy would leak its way into GDP reports. With 2Q13's data, we see a much softer negative impact on GDP from government consumption compared 4Q12 and 1Q13, down only 0.4%. Even more interesting is the fact that the decline was fueled primarily by federal reduction in consumption whereas state and local consumption actually rose 0.3% for its first positive clip since 2Q12. That being said, the decline in government consumption continues to dampen GDP growth in comparison to post-recession periods in the past.

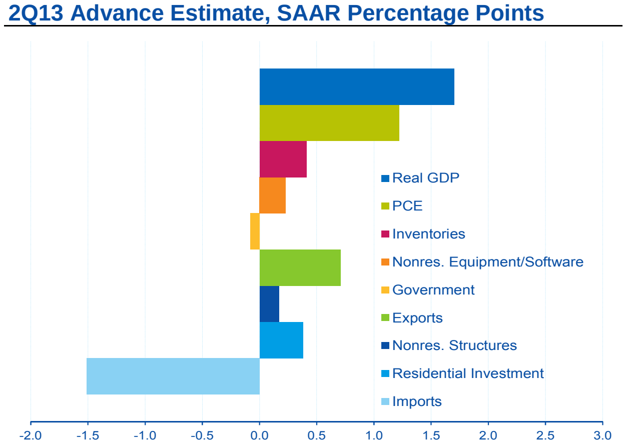
With this report also came significant annual revisions stretching all the way back to 1947. Some of the highlights are an upward revision to the recent recessionary period, making the largest quarterly decline 8.3% rather than 8.9%. Furthermore, growth in 2012 was revised upward from 2.2% to 2.8% annual rate due to a much stronger personal consumption and less of a drag from government consumption (mostly seen in 1Q12). One of the most interesting revisions related to 1Q13, which we just had the final estimate for last month. Expected to remain stable, the final GDP figure for 1Q13 was 1.8%, but annual revisions pulled down the figure to 1.1%. This was due primarily to a downward revision to personal consumption and private domestic investment coupled with weaker exports and considerably stronger imports. It seems that our predicted scenario for 1Q13 were in fact correct but for 2Q13, and the weaker situation in personal consumption and investment that was expected for 2Q13 was actually more appropriate for 1Q13. Overall, this does not change our baseline forecasts – slow growth in 1H13 with expectations for a stronger 2H13. We maintain our forecast for 1.8% annual growth for 2013.

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 2Q13 Advance Estimate, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

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