

U.S. GDP Flash

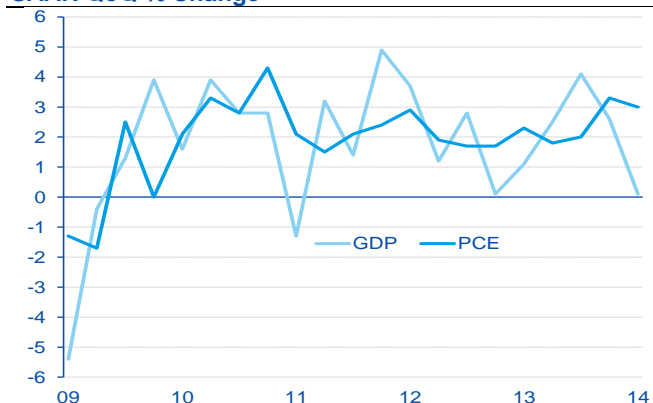
Advance GDP Estimate Confirms Deceleration in 1Q14

- Real GDP growth slowed to 0.1% SAAR in 1Q14 after a strong finish to 2013
- Private investment and net exports were key drivers of the downward pressure
- Advance estimate likely to be revised upward once full set of 1Q data is reviewed

The BEA's advance estimate of 1Q14 real GDP confirmed our expectations that economic growth decelerated from 4Q13. According to the report, GDP nearly stalled, expanding at a rate of only 0.1% SAAR over the first quarter of the year. The drop was led by a significant dip in gross private domestic investment, which fell 6.1% SAAR, the biggest drop since 1Q11, and reflected declines in both the residential and nonresidential components. Residential investment fell for the second consecutive quarter, which does not come as a surprise due to weak housing data throughout the first few months of the year. Fortunately, rising home prices lifted the nominal figure for residential investment, up nearly 2.0% SAAR to recover from 4Q13's decline. Another negative driver was net exports, as export growth dropped 7.6% SAAR, the biggest decline since the recession, which is a concern with regards to international demand for U.S. goods. On a brighter note, consumer spending was up 3.0%, just about on pace with the 4Q13 rate (3.3%); however, spending on goods plunged to its lowest level since 2Q11. Instead, consumers spent more on housing and utilities, which increased 6.0%, the biggest gain since 4Q00, due in large part to the freezing temperatures seen across the country. Additionally, healthcare spending rose by its largest rate since the 1980s. As the Affordable Care Act comes into play, it will be vital to monitor the overall impact on healthcare spending over the coming quarters, but we expect that this will level out as the program gets underway.

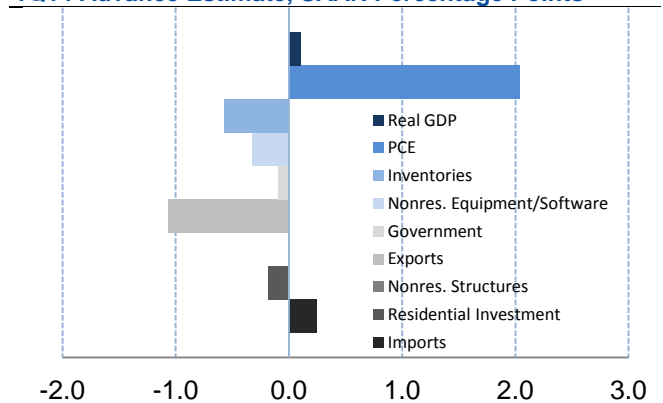
Overall, the slower-than-expected GDP estimate is slightly discouraging, but there is no need to worry about an impending slowdown. The advance estimate is based off data released thus far, the majority of which has been for January and February, which were highly affected by seasonal factors. Business activity and consumption data have been starkly stronger in March, so it is likely that growth will be revised upward once all the data are accounted for in the quarter. Furthermore, according to the BEA, the change in estimate between the advance report and final has averaged 0.6 percentage points historically. For this reason, we cannot make a definitive judgment regarding the health of the economy on the advance estimate, and we expect that when the data is complete, GDP growth for 1Q14 will be revised upward. As such, we maintain our expectations for 2.5% growth in 2014.

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
1Q14 Advance Estimate, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

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