U.S. GDP Flash

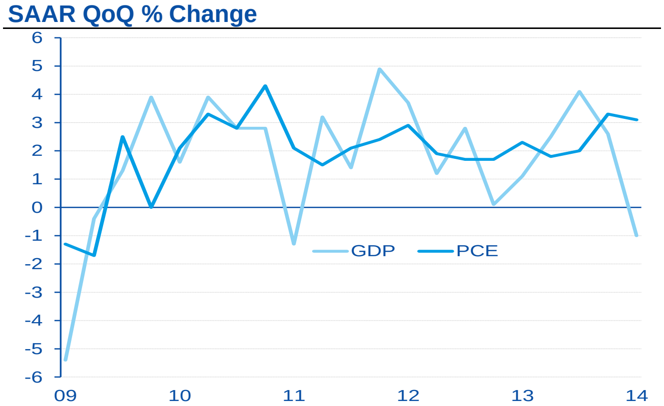
Preliminary GDP Estimate Revised Downward

- **Economy contracted by -1.0% in 1Q14 after advance estimate showed 0.1% growth**
- **Downward revision in inventories almost fully accounts for the significant adjustment**
- **Data adds downward bias to 2014 GDP, though we maintain our forecast at 2.5%**

The BEA's preliminary estimate of 1Q14 real GDP showed contraction in economic growth compared to the advance estimate of only modest expansion. The report noted that economy contracted 1.0% on a QoQ seasonally adjusted annualized basis, the biggest quarterly drop in three years. The reason for the steep downward revision was mostly due to the change in private inventories, which subtracted 1.6pp from GDP growth after the advance estimate of only -0.6pp. Another factor dragging on GDP was gross private domestic investment, which tumbled 11.7% in the first quarter, the biggest dive since 2Q09, compared to the initial estimate of a 6.1% drop. Within the component, residential investment fell -5.0%, the second consecutive quarterly decline and a reflection of the lagging housing market so far this year. Business spending clearly slowed over the first quarter, reflected by drops in structures and equipment spending. In total, the investment component subtracted about 0.4pp from growth. When it comes to the trade balance, exports had less of a drag on growth (-6.0% vs. the advance of 7.6%) but still marked the worst quarter for the component since the recession. On a positive note, personal consumption expenditures were revised up slightly to a 3.1% rate through 1Q14, driven by a 4.3% surge in services spending, the highest since 2000. The services component may be a product of increased spending on healthcare over the first quarter as the Affordable Care Act comes into play, and will be an important component to watch moving forward. On the other hand, spending on goods weakened to 0.7% in 1Q14, which we largely attribute to the harsh weather discouraging spending.

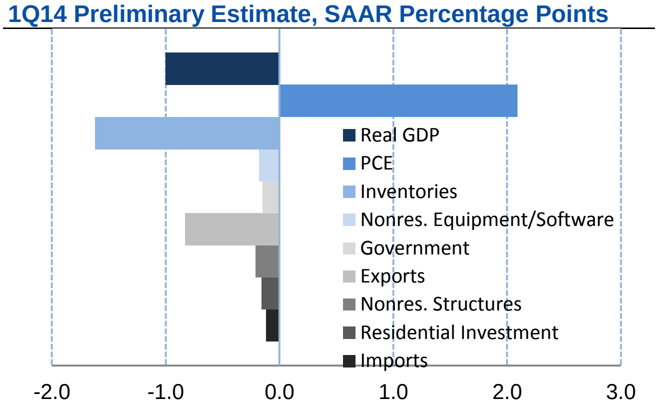
Though the slower-than-expected GDP estimate for 1Q14 is disappointing, we remain optimistic about economic growth moving forward. Our bullish stance on housing leads us to conclude that residential investment will bounce back in the coming quarters. Additionally, we expect personal consumption expenditure, which is the backbone behind economic growth, to remain high, and look for an increase in the goods component now that seasonal factors are behind us. Additionally, inventories appear to have bottomed out, and it is unlikely that there will be another significant negative inventory figure to bias GDP downward through the rest of the year. With regards to our 2014 forecast, the 1Q14 figure exerts downward pressure on our initial projection for 2.5% growth, but we maintain our projection as it stands under the assumption that activity will accelerate throughout the rest of the year.

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 Preliminary Estimate, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

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