

US Q1 GDP growth revised higher to -0.2% on stronger domestic demand

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- According to the third estimate of the US Bureau of Economic Analysis (BEA),¹ Q1 real GDP growth was revised higher to -0.2%QoQ saar from -0.7% in the second estimate, in line with consensus expectations (Figure 1).
- The significant deceleration in real GDP growth from a positive growth reading of 2.2%QoQ saar in Q4 2014 was mainly attributed to a sharp drop in external demand. Net trade subtracted 1.9pps (in line with the second estimate), as real exports fell by 5.9%QoQ saar underperforming a concomitant increase of 7.1%QoQ saar in real imports. The stronger dollar has probably weighed on exports, in combination with the distortions caused by the West Coast port strikes on foreign demand.
- Real fixed investment declined by 0.3%QoQ saar, vs. -1.3% previously reported, boosted by stronger residential investment and intellectual property spending. Private non-residential investment fell by 2.0%QoQ saar, reflecting a roughly 19% annualized drop in structures investment on the quarter that led to a further 0.26pp drag on real economic growth. The sharp fall in structures was probably attributed to harsh winter weather conditions, the large drop in energy-related capital expenditures as well as some seasonal weakness observed in many investment categories in the first quarter of each year.
- The major positive contributor to Q1 GDP was real personal consumption, which was revised higher to 2.1%QoQ saar from 1.9% in the second estimate, adding 1.43pps to growth. The slowdown in personal consumption quarterly growth from its multi-year peak of 4.4%QoQ in Q4 2014 was mainly driven by consumption on goods, which rose by a mere 1.0% versus a stronger increase of 2.7% in consumption on services. The temporary effects from severe winter weather appear to have faded in Q2, as suggested by the recent rebound in retail sales and real personal spending in May. Indeed, real private consumption increased by 0.6%MoM sa from 0.0% in the previous month, registering its highest monthly growth since August 2014.

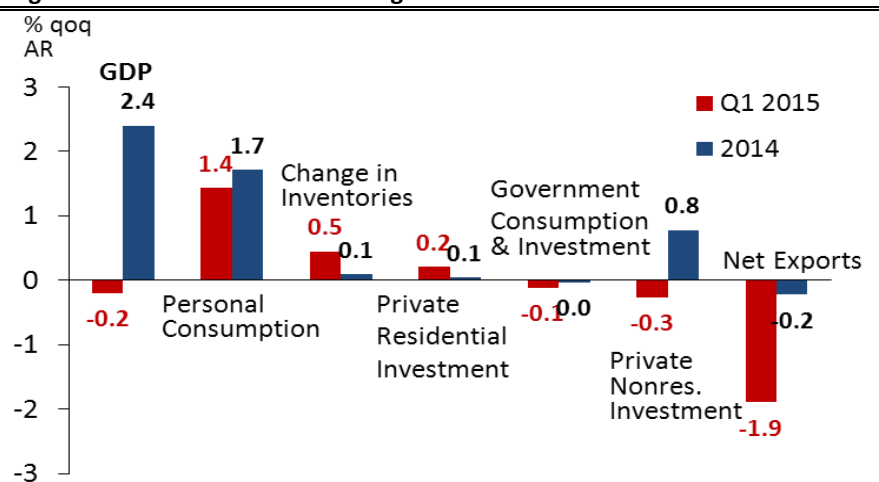
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¹ http://www.bea.gov/newsreleases/national/gdp/2015/pdf/gdp1q15_3rd.pdf

- In our view, real GDP growth will probably accelerate towards 2.5-3.0%QoQ saar in Q2 2015. Solid household income gains in May suggest an acceleration in consumer spending while the recent upward trend in home sales and the NAHB homebuilder sentiment point to a stronger contribution from residential investment. In addition, the stabilization in the trade-weighted dollar in the second quarter of the year and the end of the West Coast port strike should allow the drag from net trade to lessen.

Figure 1: Contribution to real GDP growth



Source: US Bureau of Labor Statistics (BLS), Eurobank Economic Analysis and Financial Markets Research

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