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US Q3 GDP growth revised higher to 2.1% on stronger inventory accumulation

- According to the second estimate of the US Bureau of Economic Analysis (BEA),¹ Q3 real GDP growth was revised higher to 2.1%QoQ saar from 1.5% in the advance estimate, in line with consensus expectations (Figure 1).
- The upward revision was primarily attributed to private inventories, which were revised to \$90.2bn from \$56.8bn in the advance estimate. Consequently, inventories subtracted 0.6pps from real GDP growth versus an estimated drag of 1.4pps previously. Separately, slightly stronger residential and nonresidential fixed investment was more than offset by a downward revision to external demand. The stronger dollar has probably weighed on exports, with net trade widening to -544.1bn from -536.2bn in the advance estimate and, thus, resulting in a drag of 0.2pps to real GDP growth from 0.0pps previously.
- Although real personal consumption was revised modestly lower to 3.0%QoQ saar from 3.2% in the advance estimate, it has remained the major pillar of growth adding 2.05pps to GDP. The downward revision in personal consumption quarterly growth was driven by services consumption, while consumption on goods was modestly revised upwardly. All in all, private consumption has been on a solid upward path for more than a year with annual growth rates of higher than 3.0%, and we expect it to continue doing so on positive wealth effect, lower oil prices and improved labor market conditions.
- According to the preliminary estimate, corporate profits (with inventory valuation and capital consumption adjustments) declined by 4.3%QoQ saar, with the annual rate of growth registering its worst performance since Q2 2009 (-4.7%YoY). The deceleration on the quarter was mainly due to a 26.5%QoQ saar drop in foreign profits (-12.2%YoY), as domestic industry profits increased slightly by 1.7%QoQ saar. Weak global demand, a stronger USD, rising ULCs and restrictive financials conditions will probably weigh on corporate profits' outlook in the following quarters.

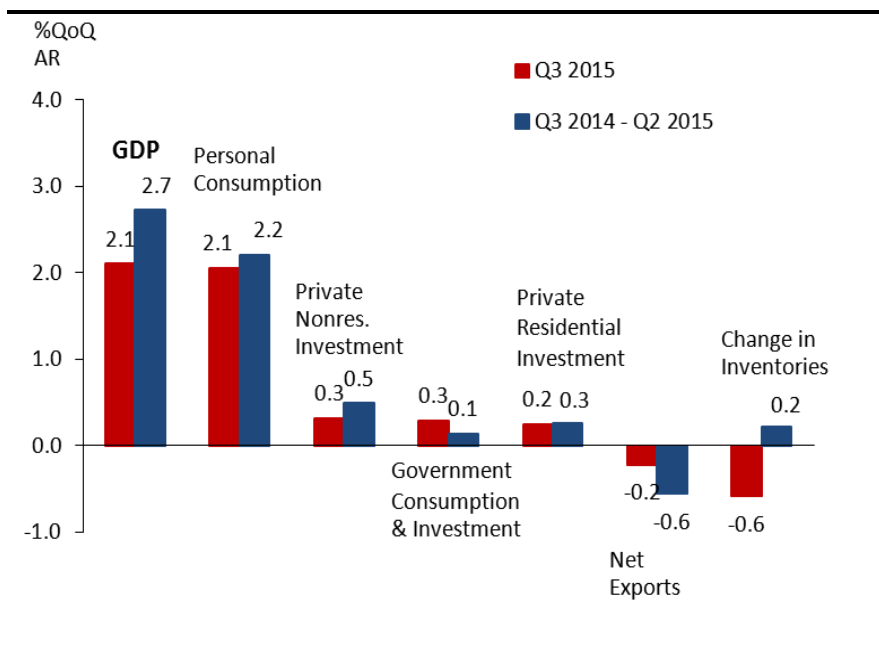
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¹ http://www.bea.gov/newsreleases/national/gdp/2015/pdf/gdp3q15_2nd.pdf

- The second estimate of Q3 GDP was in line with strong domestic demand and weak net trade. The private inventory upward revision might suggest that manufacturing production is adjusting to a lower level of final sales, so the inventory correction might well continue into Q4 2015. We expect real GDP growth to hover around 2.0-2.5%QoQ saar in Q4 2015, underpinned by solid consumption growth. Our forecast for the average 2015 and 2016 real GDP growth remains at 2.5% and 2.6%, respectively.

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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