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www.eurobank.gr/research
research@eurobank.gr

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FOCUS NOTES

US economy grew by a mere 0.2% in Q1

Olga Kosma
Economic Analyst
okosma@eurobank.gr

- According to the advance estimate of the US Bureau of Economic Analysis (BEA),[1] real GDP growth rose by a mere 0.2% q-o-q saar in Q1 2015 from 2.2% in the final quarter of 2014, disappointing consensus expectations of 1.0% (Figure 1).

- The significant deceleration in real GDP growth was mainly attributed to a sharp drop in external demand. Net trade subtracted 1.3pp, as real exports fell by 7.2% qoq saar and real imports increased by 1.8% qoq saar. The stronger dollar seems to have weighed on exports, while the West Coast port strike may have also contributed to the slowdown of foreign demand.

- Private non-residential investment declined by 3.4% qoq saar, reflecting a 23% annualized drop in structures investment on the quarter that led to a further 0.4pp drag on real economic growth. This sharp fall in structures was probably driven by harsh winter weather conditions and the large drop in energy-related capital expenditures.

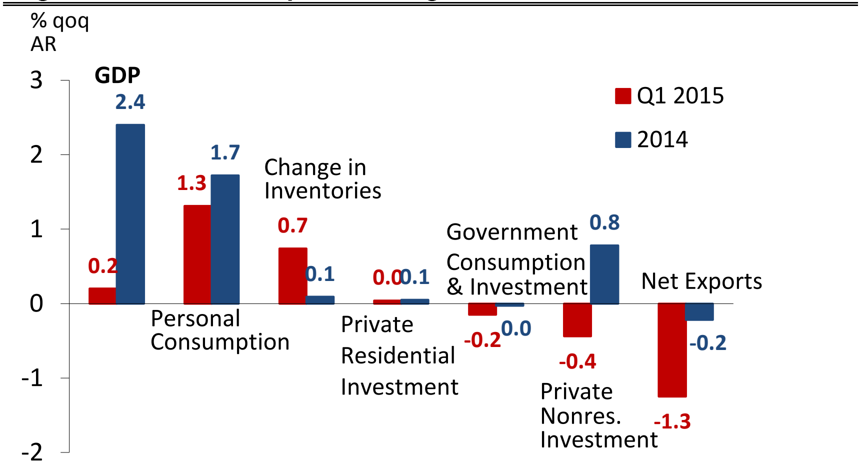
- Amongst positive contributors to Q1 GDP, real personal consumption increased by 1.9% qoq saar from 4.4% qoq saar in Q4 2014, adding 1.3pp to growth. The slowdown in personal consumption quarterly growth was mainly driven by consumption on goods which rose by a mere 0.2% versus a stronger increase of 2.8% in consumption on services. The temporary effects from severe winter weather will probably fade in Q2, as suggested by the recent rebound in auto and retail sales in March.

- Private residential investment increased by a mere 1.3% qoq saar on inclement winter weather, but the recent recovery in the NAHB housing sentiment index suggests a possible acceleration in construction activity in Q2.

[1] http://www.bea.gov/newsreleases/national/gdp/2015/pdf/gdp1q15_adv.pdf

- Overall, we expect real GDP growth to gain momentum in the coming quarters, as the transitory effects from adverse weather and port strike fade. Nevertheless, the risks surrounding the US economic outlook prevail on account of the more pronounced than expected weakness in business fixed investment and exports due to a stronger dollar and lower oil prices.

Figure 1: Contribution to percent change in real GDP



Source: US Bureau of Economic Analysis (BEA), Eurobank Research

Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: *Group Chief Economist*
pmonokrousos@eurobank.gr, + 30 210 37 18 903

Research Team

Anna Dimitriadou: *Economic Analyst*
andimitriadou@eurobank.gr, + 30 210 37 18 793

Ioannis Gkionis: *Research Economist*
igkionis@eurobank.gr + 30 210 33 71 225

Stylianos Gogos: *Economic Analyst*
sgogos@eurobank.gr + 30 210 33 71 226

Olga Kosma: *Economic Analyst*
okosma@eurobank.gr + 30 210 33 71 227

Arkadia Konstantopoulou: *Research Assistant*
arkonstantopoulou@eurobank.gr + 30 210 33 71 224

Paraskevi Petropoulou: *G10 Markets Analyst*
ppetropoulou@eurobank.gr, + 30 210 37 18 991

Galatia Phoka: *Research Economist*
gphoka@eurobank.gr, + 30 210 37 18 922

Theodoros Stamatiou: *Senior Economist*
tstamatiou@eurobank.gr, + 30 210 33 7 1 228

Global Markets Sales

Nikos Laios: *Head of Treasury Sales*
nlaios@eurobank.gr, + 30 210 37 18 910

Alexandra Papathanasiou: *Head of Institutional Sales*
apapathanasiou@eurobank.gr, +30 210 37 18 996

John Seimenis: *Head of Corporate Sales*
yseimenis@eurobank.gr, +30 210 37 18 909

Achilleas Stogioglou: *Head of Private Banking Sales*
astogioglou@eurobank.gr, +30 210 37 18 904

George Petrogiannis: *Head of Shipping Sales*
gpetrogiannis@eurobank.gr, +30 210 37 18 915

Vassilis Gioulbaxiotis: *Head Global Markets International*
vgioulbaxiotis@eurobank.gr, +30 210 3 718 995

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

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