



Where are we at the moment? The economy is projected to grow 2.4% in Q1 2015, nearly the same pace as the previous quarter. The inability of the economy to sustain a 3%-plus growth rate in the first quarter is due to several factors. One, the economy faced an unusually brutal winter for the second consecutive year. Temperatures across much of the country were unseasonably low and activity was hampered by numerous winter storms. This likely depressed discretionary purchases and hurt construction activity. Two, a slowdown in West Coast port activity, a function of labor strife, may meaningfully dent Q1 exports. This will likely reverse next quarter as the labor issues have been resolved. Three, the seasonal factors might not be adequately capturing the currently prevailing seasonal pattern. If our quarterly 2015 GDP profile is correct, this would mark the eighth time in the last 13 years in which Q1 turned out to be the weakest quarter of the year. Finally, the collapse in energy prices is causing a sharp pullback in energy-related capital spending at the moment. However, if oil prices stabilize, the drag from diminished oil and gas capital expenditures (capex) should dissipate toward yearend. Based on DB's forecast for West Texas Intermediate oil prices, energy-related capex should show an increase by Q4 of this year.

Baby, it's cold outside. We can measure weather by looking at the number of heating degree-days relative to the average. When the figure is positive, it means that households had to heat their homes more than normal, and vice versa. As we can see in the accompanying chart, there was a large jump in February 2015 heating degree-days. Indeed, it was the largest positive reading since December 2000, and it was one of the coldest Februaries on record. There is little doubt this had a negative impact on discretionary purchases such as motor vehicles. In fact, various reports among dealerships across the country highlighted the unusually harsh weather as a factor depressing sales. The story has been the same for housing. In February, housing starts fell a whopping 17% to 0.897 million annualized, the lowest reading since January 2014. However, housing permits increased 3.0% in the month to 1.092 million annualized. Why does this matter? For a start to be counted, ground needs to be broken. But if the ground is frozen, the start is not captured. This is not the case with a permit. With the spread between starts and permits the widest since January 2007, expect the former to snap back toward the latter as the weather normalizes.

History repeats itself—yet another weak Q1 performance. Over the past several years, we have noticed a tendency for Q1 real GDP to be significantly weak, at least relative to the rest of the year. While this is hardly a large sample, it is possible the seasonal factors are not properly accounting for the currently prevailing seasonal pattern in production and spending. Shifting weather patterns only further complicate the ability of the government to seasonally adjust the data. Of course, the seasonal adjustments net out to zero over the full calendar year.

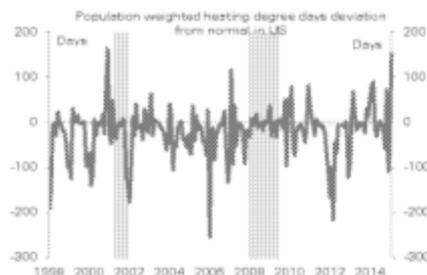
Lower oil prices mean less energy capex. The roughly 60% decline in crude oil prices from last July's high points to significantly less spending within the capital-intensive energy sector. Historically, changes in oil prices lead changes in energy spending by roughly two quarters. Not surprisingly, energy-related capex is poised to decline sharply this quarter, which is another factor weighing on measured economic output. However, when energy prices stabilize and eventually trend higher as oil and gas supply goes offline, the reduction in capex will eventually come to a halt. Given Deutsche Bank's outlook for oil prices, we should see a sequential gain in energy-related spending by Q4 2015. It is also worth highlighting that energy-related capex accounts for only about 10% of total capital outlays or just 1% of GDP. Therefore, we do not believe that economy-wide capital spending will be meaningfully impaired by the decline in energy prices.

Figure 2: Underlying economic growth is poised to accelerate



Source: BEA, Haver Analytics, Deutsche Bank Research

Figure 3: February was extremely cold, thereby depressing economic activity



Source: NOAA, Haver Analytics, Deutsche Bank Research

Figure 4: The trade-weighted dollar has appreciated at a rapid pace



Source: FRB, BLS, Haver Analytics, Deutsche Bank Research