ECONOMIC NEWS

The US Started 2023 with Slower than Expected Growth

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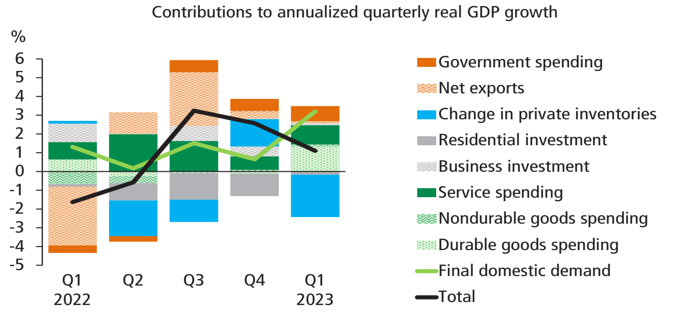
HIGHLIGHTS

- According to the advance estimate released today by the U.S. Bureau of Economic Analysis, real GDP increased at an annualized rate of just 1.1% in the first quarter of 2023.This came on the heels of a 2.6% gain in the fourth quarter and 3.2% in the third quarter of 2022.
- Real consumer spending rose at an annualized pace of 3.7% in the first three months of the year. Spending on durable goods climbed 16.9%, while spending on nondurable goods was up 0.9%. Growth in service spending rose 2.3%.
- Nonresidential fixed investment edged up 0.7%. Nonresidential construction spiked 11.2%, its second successive quarterly gain. Investment in equipment was down 7.3%, but investment in intellectual property products increased 3.8%. Residential investment dropped 4.2%, much less than the declines of more than 25% we saw in the previous two quarters.
- Change in private inventories plummeted from +US$136.5 billion to -US$1.6 billion, shaving 2.26 points off real GDP growth.
- International trade contributed +0.11 percentage points of its own. Real exports increased 4.8%, while real imports were up 2.9%.
- Government spending rose 4.7%.

COMMENTS

US real GDP growth was weaker than anticipated in early 2023. Analysts expected an annualized increase of around 2.0%. However, this 1.1% print hides some of the more positive factors. Real consumer spending posted its highest quarterly growth since the spring of 2021, and since 2017 if we exclude pandemic-related surges. That said, much of the increase in household spending occurred in January. Weaker growth in February, and probably March as well, suggests a slowdown in the second quarter. Keep in mind that high interest rates will increasingly curb households' ability to spend more.

GRAPH
Much of the Weakness in Real GDP Came from Private Inventory Investment as Domestic Demand Surged



Sources: Bureau of Economic Analysis and Desjardins Economic Studies

On the business side, the rebound in nonresidential construction came from manufacturing (+40.5%) and commodity extraction (+32%). Weak investment in equipment is more in line with other indicators such as the ISM indexes. Clearly, the drastic change in private inventories—which rose at the end of 2022 but plunged in the first quarter of 2023—was the biggest detractor from real GDP. It explains most of the gap between the 1.1% growth in annualized real GDP and the 3.2% spike in final domestic demand.

IMPLICATIONS

Real GDP growth turned out to be rather slow in early 2023, but the strength of domestic demand shows a degree of resilience that could continue to fuel inflationary pressure. As a result, the Federal Reserve may hike its key interest rate again at next week's meeting.