HIGHLIGHTS

- Real GDP contracted by 0.1% at an annualized pace in the fourth quarter of 2012, according to the advance estimate of national accounts; this, after a gain of 3.1% in the summer. Final domestic demand grew by 1.3%.
- In 2012 as a whole, real GDP increased by 2.2% after a 1.8% gain in 2011 and a gain of 2.4% in 2010.
- Real consumption expanded by 2.2%, its strongest growth since the winter of 2012. This result comes mainly from a 13.9% surge in the consumption of durable goods (+26.7% in automobiles). Real consumption of non-durable goods rose by just 0.4%, while that of services ticked up by 0.9%.
- Business investment accelerated in the fall. After dropping 2.5%, investments in equipment and software jumped by 12.5%, their best gain since the summer of 2011. Non-residential construction slipped by 1.1%, while residential investment soared by 15.3%.
- Probably due to Hurricane Sandy, changes in inventory made a significant negative contribution of 1.3 percentage points. Inventory changes went from US$60.3B to US$20.0B.
- Real exports fell by 5.7%, the first contraction since Q1 2009. Imports also lost ground, by 3.2%.
- After a rally of 3.9% in the third quarter, government spending sank by 6.6%, in particular due to a 22.2% cutback in federal military spending. Other federal spending rose by 1.4%. Spending by the states and municipalities declined by 0.7%.

COMMENTS

Some degree of weakness in U.S. economic growth was anticipated for the last quarter of 2012. The pace of 3.1% that was achieved by real GDP growth in the summer was unsustainable in the short term; too many negative factors were arguing in favour of a lull. But these negative factors weighed more heavily than expected, and generated the first decline in U.S. real GDP since the spring of 2009.

Still, all is not doom and gloom in this advance estimate of national accounts. Real consumption expanded a bit faster than expected, thanks mainly to the automobile sector. Business investment climbed by 12.5%, much stronger growth than anticipated, which contrasts somewhat with the weakness of manufacturing indexes like the ISM. Residential investment continued its recovery with a gain of 11.9% for 2012 as a whole, after a 1.4% contraction in 2011.

This blow to growth stemming from changes in inventory should not last long. This fairly volatile statistic certainly took a hit from Hurricane Sandy. As far as foreign trade and government spending are concerned, the effects are more detrimental. In addition to the impact of Sandy, exports are suffering from flagging global demand. As for federal spending, budget control measures, even if tempered, do not suggest any imminent rebound.

Implications: The fragility of real GDP is obviously not good news, but the details do not paint a catastrophic picture. However, given the difficulties that are facing the economy at this start to the year, such as tax increases and declining confidence, the drop in real GDP is certainly not a good foundation.

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