A timid rebound by real GDP

HIGHLIGHTS

- Real GDP expanded at an annualized pace of 2.5% in the first quarter of 2013, according to the first estimate of national accounts; this follows a gain of just 0.4% in the fall. Final domestic demand grew by 1.9%, which exactly matches the average of the past three years.

- Real consumption rose by 3.2%, its strongest gain since the end of 2010. The main contributors to this number are consumption of durable goods (with a gain of 8.1%) and services (a gain of 3.1%). Real consumption of non-durable goods ticked up by a mere 1.0%.

- Business investment flagged, with a 0.3% drop in non-residential construction and a slight 3.0% gain in investment in equipment and software (following an increase of 11.8%). Residential investment surged by 12.6%.

- After making a substantial negative contribution at the end of 2012, changes in inventory contributed 1.03 percentage points to real GDP growth. Inventories soared from US$13.3B to US$50.3B.

- Real exports expanded by 2.9%, a slower pace than the 5.4% growth in imports.

- Government spending declined once again, this time by 4.1%.

- Despite some headwinds, such as tax increases and high gas prices, consumption put in its best quarterly performance in over two years. But we should point out that household spending seems to have been inflated by higher demand for heating—not a very stable foundation.

- Following disappointing economic growth observed in the last quarter of 2012, many indicators were hinting at a rally of some sort in the beginning of 2013. Consumption did accelerate as expected, but the other real GDP components did not step up to the plate. As a result, the 2.5% real GDP growth is disappointing; the consensus was calling for 3.0%.

- Implications: Real GDP growth was more sluggish than expected, although it did present a welcome improvement compared with the disappointing performance recorded at the end of 2012. However, recent indicators are suggesting slower growth in the second quarter.

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It was mainly business investment that failed to meet expectations. The improvement in the ISM indexes and growth in new orders at the very end of 2012 and beginning of 2013 seemed to point towards a far better performance.

In the public sector, military disengagement and budget reduction measures once again pulled back federal spending, which fell by 8.4% after plummeting by 14.8% in the fall. If we include the contraction in spending by states and municipalities, we see that public spending has made a negative contribution to GDP growth in nine of the past ten quarters. Given the new austerity measures that are in place, this situation will most likely continue.