Real GDP growth posts slight acceleration

HIGHLIGHTS

• Real GDP rose at an annualized pace of 2.8% in the third quarter of 2013 based on the national accounts’ advance estimate, after posting gains of 2.5% last spring. Final domestic demand grew by 1.7%, a slower pace than in Q2.

• Real consumption was up 1.5%, the weakest growth since spring 2011. Durable goods (+7.8%) and non-durable goods (+2.7%) posted solid advances, but growth on the services side was almost non-existent (+0.1%).

• Business investment slowed, gaining only 1.6% on the heels of a 4.7% advance last spring. Non-residential construction posted very sharp growth, while investments in equipment declined by 3.7%. Residential investment jumped 14.6%.

• Changes in inventory were the main drivers of growth. Shifts in inventory soared from US$56.6B to US$86.0B, boosting real GDP growth by 0.83 percentage points.

• Real exports grew by 4.5%, outpacing the 1.9% increase in imports.

• Government spending was up for the first time since fall 2012, showing a slight 0.2% increase. States and municipalities expenses were up 1.5%, while federal government expenses fell by 1.7%.

COMMENTS

The increase in real GDP last summer beat expectations, as consensus had pegged growth to come in closer to 2.0%. The 2.8% gain is also the most robust showing in a year. And yet, few GDP components show surprising strength. We did note, however, that not one major demand component made a negative contribution. Positive contributions were made almost across the board, but nothing stands out, reflected by the slowdown in final domestic demand. The weakness of consumption and investment in equipment reminds us that the U.S. economy remains fragile.

In terms of consumption, the weak demand for services is surprising. The scant 0.1% increase is the lowest since the second quarter in 2009. We could assume that this underperformance will be fleeting, since it is mostly tied to a drop in demand for air conditioning given the cooler summer weather. However, the decline in new automobile sales for the past two months suggests that durable goods will contribute less this fall.

The biggest disappointment in the figures released today is without a doubt the drop in business investment in equipment. The rebound by ISM indexes since July suggested greater investment, but this could still materialize by the end of the year. That said, we cannot count on changes in inventories to save the day in the next few quarters.

Implications: Real GDP growth was stronger than expected, but some key components—consumption and investment—have slowed. We still have to see how the U.S. economy responded to the budget impasse that played out in the fourth quarter.

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