Economic News

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UNITED STATES

Real GDP posts another strong advance

HIGHLIGHTS

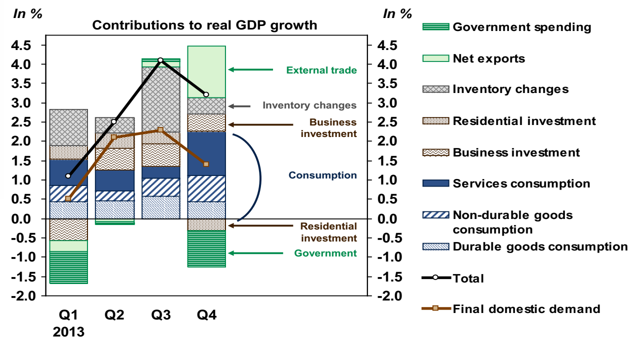
- Real GDP grew at an annualized rate of 3.2% in the fourth quarter of 2013, based on the first estimates of the national accounts, on the heels of a 4.1% gain last summer. Final domestic demand advanced by 1.4%, a slower rate than that recorded in the two previous quarters.
- For 2013 overall, real GDP grew by 1.9%, following growth of 2.8% in 2012 and a 1.8% advance in 2011.
- Real consumption increased by 3.3%, the strongest growth since fall 2010. Durable goods had a solid showing (+5.9%) as did non-durable goods (+4.4%). Services rebounded to 2.5% after an anemic 0.7% gain last summer.
- Business investment slowed somewhat, with growth of 3.8%, after a 4.8% advance last summer. Non-residential construction declined, but investment in equipment accelerated slightly. Residential investment contracted by 9.8%, the first decline since 2010. Changes in inventory contributed once again to the increase in real GDP. Shifts in inventory increased from US$115.7B to US$127.2B, which bumped up real GDP growth by 0.42 of a percentage point.
- Real exports boosted the economy in Q4 with an 11.4% gain, while imports ticked up by only 0.9%.
- The budget impasse in October severely undermined government spending, which contracted by 4.9%, including federal spending, which plunged by 12.6%. Spending by States and municipalities was up 0.5%.

COMMENTS

The increase in real GDP shows how the private sector was able to take the lead, while the federal government shutdown—which lasted 16 days in October—took a big bite out of growth. Federal spending made a negative contribution of 1.0% to the change in real GDP.

The rebound in real consumption is one of the bright spots—growth in this sector has not been this brisk in three years. Stronger demand for energy was one aspect that rebounded last fall, but other areas also saw upswings, such as clothing, food services, accommodations and financial services. Improvements in household confidence since the low point was reached due to political uncertainty should ensure that consumption will remain on track in 2014.

Sharper consumption and net export growth boosted the economy



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Advances in investment are still fairly disappointing. In line with the good performance of ISM indexes, investment in equipment accelerated faster last fall (+6.9%) than in the summer (+0.2%), but even better growth could be achieved. Construction was particularly weak last fall. On the non-residential side, the 1.2% drop is a logical decline after the sharp 13.4% gain posted the previous quarter. On the residential side, the drop reflects the weakness in housing starts early last fall, which then rebounded, however. We expect the recovery in the housing sector to continue in 2014, despite the increase in mortgage interest rates.

Implications: Real GDP growth is in line with expectations and shows the resilience of the U.S. economy when confronted with the federal budget impasse. More positive advances in real GDP are expected throughout 2014.

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