



UNITED STATES

The U.S. economy starts off 2014 in hibernation

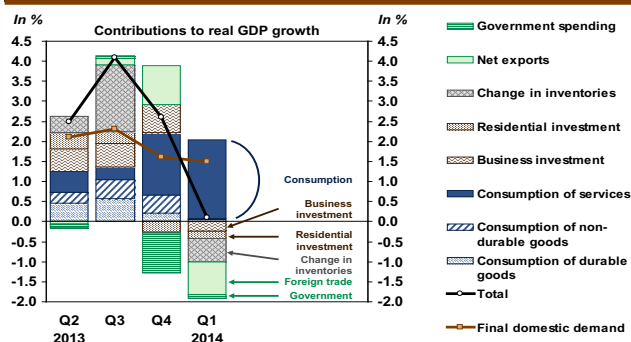
HIGHLIGHTS

- Real GDP grew at a meagre annualized rate of 0.1% in the first quarter of 2014, according to the advance estimate of national accounts, after a gain of 2.6% in the fall of 2013. Final domestic demand grew by 1.5%, close to fall's figure of 1.6%.
- Real consumption was up by 3.0%, fairly strong growth, similar to the 3.3% recorded in the previous quarter. Consumption of goods expanded by just 0.4%, but higher spending on heating and health generated a 4.4% gain in real service spending.
- Business investment dropped by 2.1% after a 5.7% increase in the fall. Residential investment contracted by 5.7% for a second negative quarter in a row. The change in inventories fell from US\$111.7B to US\$87.4B, taking a 0.57 point bite out of real GDP growth.
- Real exports posted a pullback of 7.6%, but the negative effect was moderated somewhat by a 1.4% dip in imports.
- One of the greatest disappointments is that government spending failed to rebound after the budget impasse of the fall of 2013. Instead, it slipped by 0.5%. Pullbacks of 2.4% in federal defence and 1.3% in state and municipal spending offset the 5.9% increase in non-military federal spending.

COMMENTS

Slower growth was expected for the first quarter of 2014 after gains of 4.1% in the summer of 2013 and 2.6% in the fall (despite the government shutdown). The consensus was expecting an increase of slightly more than 1.0%. Thus, the quasi-stagnation of real GDP in the first quarter is bad news that takes us back to the bleak economic indicators released at the very beginning of the year. The harsh weather conditions that affected a broad part of the United States are largely accountable for this weak growth. We can blame them for the anaemic real consumption of goods, the further drop in residential investment, a portion of the failed rally in government spending (many government departments were closed due to storms) and the weakness of foreign trade, while transportation problems multiplied and exports of energy products fell back. What is more difficult to explain

Nearly all real GDP components made a negative contribution to growth



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

is the new slackness in business investment which had been hinted at by the slide in the ISM indexes at the very start of the year.

Paradoxically, the cold weather also made one of the few positive contributions to real GDP growth, via increased demand for heating services by households. Consumers also increased their health spending, reflecting the purchase of health insurance linked to Obamacare. Service consumption contributed two percentage points to real GDP growth.

Implications: This rough patch is no doubt a short-term blip. Weather conditions have naturally improved and many economic indicators are already heading up. We should expect a significant rally in real GDP in the spring, despite a likely pullback in service consumption.

Francis Généreux
Senior Economist

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Senior Director and Deputy Chief Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist