Economic News

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UNITED STATES

1% decline in U.S. real GDP

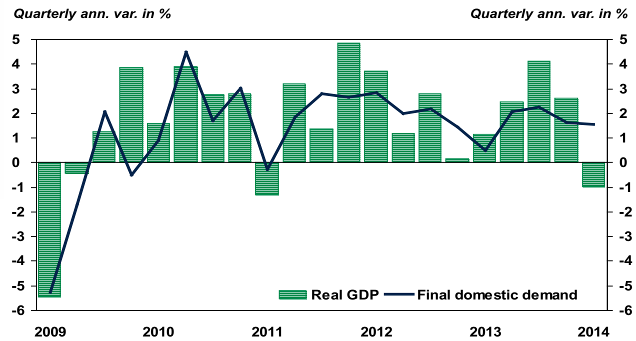
HIGHLIGHTS

- The second estimate of national accounts for the first quarter resulted in a downward revision from +0.1% to -1.0% of the annualized real GDP variation. This is the first contraction of real GDP since winter 2011. The revision of the change in final domestic demand is both smaller and positive, inching up to +1.6% from +1.5%.
- Real consumption was revised upward from 3.0% to 3.1%.
- For investment, the revisions are fairly mixed despite a new, very negative estimate for non-residential construction (from +0.2% to -7.5%). The rest of business investment surpassed initial estimates.
- Already a weak point in the first version of GDP, the change in inventory intensified its negative contribution to growth. From US$111.7B at the end of 2013, inventories shifted to only US$49B (instead of US$87.4B). The blow to real GDP growth therefore doubled from -0.57 to -1.62 percentage points.
- The negative impact of real exports also sharpened. The decrease in exports is not as bad as initially estimated (from -7.6% to -6.0%), but the retreat in imports turned into an advance (from -1.4% to +0.7%).
- The initial tumble of 0.5% in already disappointing government spending intensified to an estimated -0.8%. The weakness mainly stems from the reduction (now at 1.8%) in state and local spending.

COMMENTS

The publication of several economic indicators since the release of the advance estimate of real GDP for the first quarter suggested a downward revision to economic growth during the winter. There is no doubt that such a large decrease in GDP can only be disappointing, even if we can find signs of encouragement in the good performance of final domestic demand. The better performance of several indicators since March suggests a net improvement starting in the second quarter, thereby confirming the theory that the weakness recorded this winter is really the result of particularly harsh weather conditions.

Second drop in real GDP since the end of the recession



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Inventories and imports are the main reason for the downward revision in real GDP

Contributions to growth in real GDP in the first quarter of 2014

Components of GDP	Advance estimate (in % points)	Second estimate (in % points)	
Personal consumption	2.04	2.09	+0.05
Residential investment	-0.18	-0.16	+0.02
Private non-residential investment	-0.25	-0.20	+0.05
Government spending	-0.09	-0.15	-0.06
Exports	-1.07	-0.83	+0.24
Imports	0.24	-0.12	-0.36
Inventory change	-0.57	-1.62	-1.05
TOTAL	0.1	-1.0	-1.1
Final domestic demand	1.5	1.6	+0.1

Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Implications: This second contraction in real GDP since the end of the recession in 2009 should be short lived. By early May, the Chair of the Federal Reserve was already demonstrating confidence in an imminent rebound.

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Note to readers: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.