

July 30, 2014



## UNITED STATES

### Real GDP recovers and is revised upwards

#### HIGHLIGHTS

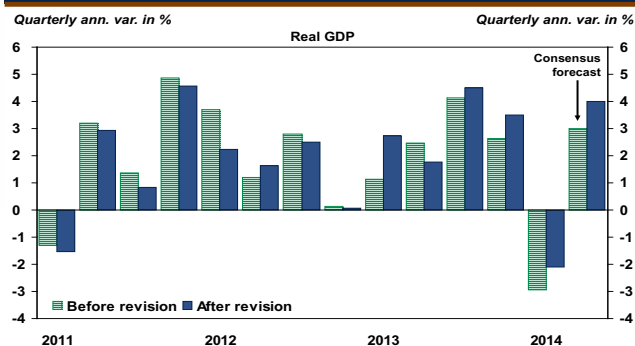
- Real GDP rose by an annualized 4.0% in Q2 of 2014, better than the 3.0% advance the forecasters' consensus called for.
- Consumer spending contributed significantly to this growth, with an increase of 2.5%. Residential investment rebounded with 7.5% growth. Non-residential investment continued to rise, thanks to a 5.5% increase. Government expenditures rose 1.6%. As such, domestic demand advanced 2.8%.
- After slowing substantially in the first quarter, inventory change accelerated in the second quarter, translating into a 1.7% contribution to real GDP.
- Exports increased by 9.5%, while imports grew 11.7%. The trade balance therefore deteriorated during the quarter, making its contribution to real GDP at -0.6%.
- Lastly, with the annual historical revisions of the U.S. economic accounts, real GDP growth is now lower for 2011 (1.6% instead of 1.8%) and 2012 (2.3% instead of 2.8%). However, most of the quarters in 2013 and the first quarter of 2014 were revised upwards. Among other things, real GDP pulled back by 2.1% instead of 2.9% in Q1 2014.

#### COMMENTS

The greater-than-expected rebound in real GDP in the second quarter made for a nice surprise this morning. In addition, growth in consumer spending exceeded expectations, particularly in the services sector. Therefore, growth by domestic demand exceeded our forecast by 0.3 of a percentage point. The divergence also stems from a slightly greater deterioration in the trade balance and a faster acceleration in inventories.

In addition, the revision upwards of most of the quarters of 2013 and the first quarter of 2014 changes the picture. Therefore, economic growth for 2013 is now 2.2% instead of 1.9%. Faster growth in the latest quarters is also providing a sharply higher carryover for all of 2014.

#### Economic growth for recent quarters was revised upwards



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

**Implications:** Even though the third estimate of economic accounts for the first quarter suggested that real GDP would grow less than 2% in 2014, this morning's results give hope that it will grow slightly more than 2%. This will obviously reassure Federal Reserve leaders, who should announce the continuation of securities purchases tapering at the end of their meeting today. Note that several economic indicators are also showing signs of improvement, employment and consumer confidence, for example. Lastly, the performance of the U.S. economy will have an impact on Canada and Quebec. The 11.7% increase in U.S. imports seen in the second quarter suggests that exports from Canada and Quebec will make more significant contributions to their economic growth.

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