Economic News

Desjardins Economic Studies

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UNITED STATES

U.S. real GDP picks up again

HIGHLIGHTS

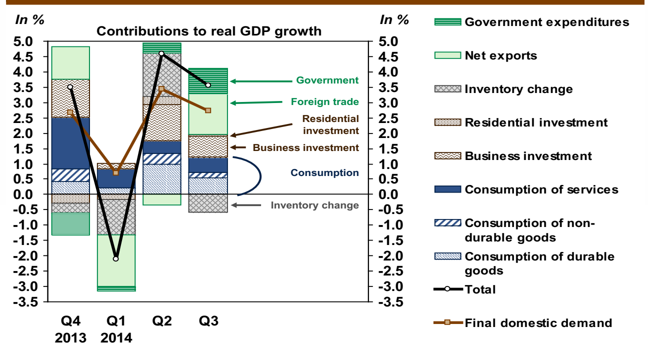
- Real GDP increased by an annualized 3.5% in Q3 of 2014, according to the advance estimate of the national accounts; this follows the spring's 4.6% gain and winter's 2.1% loss. Final domestic demand advanced 2.7%.
- Real consumption rose 1.8%, slower growth than the 2.5% gain recorded in the previous quarter. Growth in durable goods consumption dropped from 14.1% to 7.2%. Non-durable goods consumption slipped from 2.2% to 1.1%. Spending on services is still weak at 1.1%, after a 0.9% increase.
- Business investment rose 5.5%, following a 9.7% gain in the second quarter. Residential investment disappointed once again, with an increase of just 1.8%. The change in inventories fell from US$84.8B to $US62.8B, taking a 0.57 percentage point bite out of real GDP growth.
- Real exports were up 7.8%, while imports were down 1.7%.
- Government expenditures swelled by 4.6%, the strongest gain since spring 2009. After two years of falling or weak growth, federal spending on defense shot up 16.0%. Other federal expenditures increased 0.5%; this is still better than the 3.8% pullback in the spring. Spending by states and municipalities increased 1.3%.

COMMENTS

The third-quarter's 3.5% growth exceeded expectations, as the consensus had been calling for a 3.0% gain. The fact that there was a slowdown between spring and summer is not worrisome at all. Second quarter numbers were inflated by the rebound effect following real GDP's unusual 2.1% drop during the winter. Excluding this rebound effect, an increase of 3.5% is therefore very satisfactory. If we look closer at final domestic demand, we note that the 2.7% growth is the strongest advance since summer 2011, excluding the second quarter's results.

Many real GDP components are still disappointing compared to expectations based on other economic indicators. Despite strong performance by the ISM indexes, business investment is growing modestly, as a gain above 10% appeared likely. Residential construction also fell short of expectations, and there is still hope for a strong recovery in this sector. Personal consumption could also become more robust; improved consumer confidence, lower gas prices and a stronger jobs market are all promising. Investment and consumption will need to accelerate again in the coming quarters because the positive contributions from net exports and federal public spending could be fleeting.

Inventory change was the only negative contributor to real GDP growth



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Implications: The U.S. economy is finally showing greater robustness beyond the temporary rebound effects. Additional real GDP growth of around 3% would be compatible with an initial increase in the Federal Reserve's key rates in June 2015.

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