Economic News

Desjardins Economic Studies
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UNITED STATES

Real GDP growth revised to 5% for the third quarter!

HIGHLIGHTS

- The third quarter's real GDP growth was revised upwards with the third estimate of the national accounts. The annualized gain is now 5.0% instead of 3.9% for the second estimate and 3.5% for the first.
- Real consumption increased 0.7% in November, its best growth since August 2009. Thanks to automobiles, consumption of durable goods jumped 2.3%, while non-durable goods increased 1.0%. Demand for heating prompted a gain of 0.4% in the consumption of services. Real disposable income increased 0.5%. The consumption expenditure deflator fell by 0.2% while the core deflator, which excludes food and energy, remained stable.
- New durable goods orders dropped 0.7% in November after a gain of 0.3% in October. Part of the pullback comes from the military sector, but many other sectors also posted a decrease. Excluding defense and aviation, new capital goods orders stagnated after sliding 1.9% in October.
- Sales of new single-family homes fell 1.6% in November, from 445,000 to 438,000 units.

COMMENTS

A slight upward change to real GDP had been called for by the consensus, but the new gain is much stronger than expected. After an increase of 4.6% in the spring, largely due to a rebound effect after the disappointing contraction of 2.1% in the winter, real GDP is posting a true solid performance. Growth of 5.0% had not been seen since summer 2003. Consumption is primarily responsible for this upward revision. The contribution from real consumption of services doubled from 0.54 to 1.15 percentage points. Non-residential construction and business inventories also contributed more to real GDP growth.

After an upward revision to 3.2%, real consumption should continue to perform well during fall 2014. A carryover of 4.2% is already in place for the fourth quarter, although a pullback is now expected in December from automobiles and heating. The drop in gas prices probably stimulated consumers' other spending as the holiday season approaches.

This time, the upward revision in real GDP comes mainly from consumption

Contributions to real GDP growth in Q3 2014

GDP components	First estimate (% points)	Second estimate (% points)	Third estimate (% points)
Personal consumption	1.22	1.51	2.21 +0.70
Residential investment	0.06	0.09	0.10 +0.01
Private non-residential investment	0.68	0.88	1.10 +0.22
Government expenditures	0.83	0.76	0.80 +0.04
Exports	1.03	0.65	0.61 -0.04
Imports	0.29	0.12	0.16 +0.04
Inventory change	-0.57	-0.12	-0.03 +0.09
TOTAL	3.5	3.9	5.0 +1.1
Final domestic demand	2.7	3.2	4.1 +0.9

Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Furthermore, recent developments in new durable goods orders are disappointing. There has not been growth in capital goods orders since the 0.4% hike posted in August. This situation is in sharp contrast to the strong performance by the ISM manufacturing index's "new orders" component, which has averaged 64.4 since July. We can expect weaker growth from real business investment in equipment in the final quarter of 2014 compared with gains of about 11% since the spring.

Implications: Real GDP growth should be slightly weaker in the fourth quarter, despite consumption's solid performance. Residential and business investments are not enjoying the same boost as consumer spending. However, the third quarter revision will lead us to slightly upgrade the annual real GDP growth expected for 2014 and 2015—a Christmas present for Canada.

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