Economic News

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UNITED STATES

Real GDP slows but consumption picks up

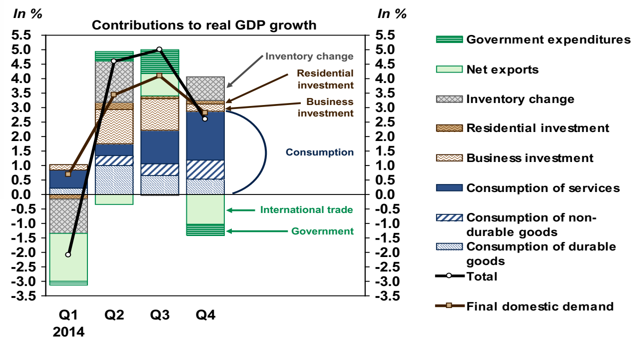
HIGHLIGHTS

- The real GDP rose an annualized 2.6% in the fourth quarter of 2014, according to the first estimate of the national accounts, slowing from the 5.0% and 4.6% gains made last summer and spring, respectively. Final domestic demand increased 2.8%.
- For 2014 as a whole, real GDP grew 2.4%, following growth of 2.2% in 2013 and 2.3% in 2012.
- Real consumption posted its strongest growth since winter 2006, at 4.3%. Both durable goods (+7.4%) and non-durable goods (+4.4%) made very good advances. Services are up 3.7%.
- Business investment slowed, showing growth of just 1.9% after last summer's 8.9% surge. Non-residential construction advanced 2.6%, but investment in equipment contracted 1.9% (following two strong gains of about 11%). Residential investment is up 4.1%. The change in inventories contributed to the real GDP's rise. Inventory movement went from US$82.2B to US$113.1B, adding 0.82 percentage points to real GDP growth.
- International trade took a 1.02-point bite out of real GDP growth. Real exports increased 2.8%; however, that was offset by a stronger advance in real imports, at 8.9%.
- Following last summer's astonishing jump, government expenditures contracted 2.2% last fall. The pullback mainly comes from a 12.5% decline in federal military spending (which follows a 16.0% increase). State and municipal spending went up 1.3%.

COMMENTS

At first glance, real GDP growth is just below expectations. The consensus was calling for quarterly annualized growth of closer to 3%. However, some factors in the fourth-quarter figures are extraordinarily strong, starting with consumption. The last time household consumption was that lively was during the peak of the real estate bubble in winter 2006. Among other things, there were substantial gains of 6.4% in autos, 5.7% in furnishings, and 13.4% in clothing. Of course, falling gas prices and better performance from employment give consumption a huge boost. This effect should persist in early 2015.

Real GDP got a very big contribution from household consumption



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

The situation in investment is not as promising. It is not surprising to see equipment investment reverse after two quarters of strong growth, as it is a fairly volatile figure. However, this contrasts with what the ISM indexes and other business confidence indexes are showing. Inventory growth offset the weakness in investment, which we hope is temporary. Note that investment associated with the oil sector continued to rise in the fourth quarter.

Implications: At 2.6%, real GDP growth seems slow compared with its recent performances. However, consumption has accelerated, a very positive point that suggests that the U.S. economy's momentum will not flag in the near future. Additional growth of around 3% should prompt the Federal Reserve to start raising its key rates this year.

Francis Généreux
Senior Economist

François Dupuis
Vice-President and 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