Economic News

Desjardins Economic Studies

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UNITED STATES

Anaemic real GDP growth in the first quarter

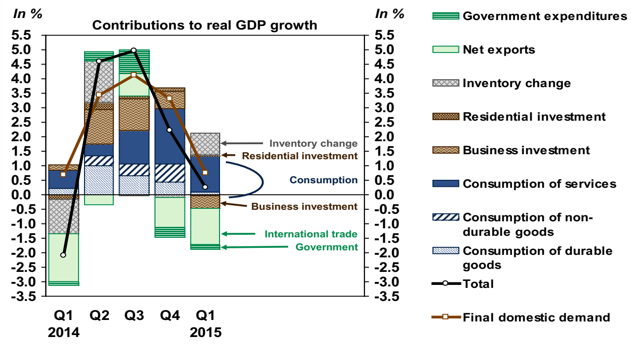
HIGHLIGHTS

- Real GDP only added an annualized 0.2% in the first quarter of 2015, according to the first estimate of national accounts. This represents a slowdown compared with a gain of 2.2% in the fall. Final domestic demand advanced 0.7%.
- Real consumption increased 1.9%. Growth was relatively good for services (+2.8%), but weak for durable goods (+0.2%) and negative for non-durable goods (-0.3%).
- Business investment contracted 3.4%. This first drop since winter 2011 stems from a 23.1% dive in non-residential construction. Investment in equipment was up slightly, at 0.1%. Residential investment is up 1.3%. The change in inventories contributed to the increase in real GDP. Inventory movement went from $US80.0B to $US110.3B.
- Battered by the labour dispute at West Coast ports and the strength of the U.S. dollar, the international trade sector took another 1.25 percentage point bite out of real GDP growth. Real exports tumbled 7.2% while imports rose 1.8%.
- Government expenditures contracted 0.8% this winter. The pullback essentially stems from a 1.5% decrease in spending by states and municipalities. The federal level saw a modest 0.3% increase.

COMMENTS

U.S. real GDP growth was expected to be weak at the start of 2015. Fate has been cruel to the U.S. economy in recent months. First, difficult weather conditions were again particularly challenging, and the effect can be seen in the weakness of durable goods consumption, with the smallest growth since spring 2011, and in spending for non-durable goods, which fell for the first time since spring 2013. The positive effect that falling gas prices was expected to have on consumption was therefore offset, and households preferred to save rather than spend the 6.2% increase in real disposable income. Second, the labour dispute at West Coast ports and the appreciation of the greenback shows particularly through the 7.2% decrease in real exports. Lastly, falling investment in the oil sector hit non-residential construction hard: investment in structures related to this sector fell 48.6%.

Weak growth in real GDP stems from business investment and international trade



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Growth that is so close to stagnation is clearly sensitive to the revisions that will be released in the coming two months. It is not inconceivable that, like in winter 2014, real GDP posts a contraction in the first quarter.

Implications: Weak real GDP in the first quarter is fairly in line with our expectations, but it is still disappointing compared with the hopes over the last year triggered by faster and more satisfying growth in the U.S. economy. We can hope that the factors impacting growth are temporary. A rebound is expected starting in the second quarter, similar to last year. The Federal Reserve, which meets today, will want to ensure that a turnaround will really occur before beginning to raise key rates.

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