Economic News

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UNITED STATES

The revision of U.S. real GDP pushes it into negative territory

HIGHLIGHTS

- The second estimate of the first-quarter national accounts produced a definite downwards revision to the annualized change in real GDP. It went from a first estimate of +0.2% to -0.7%. This is the second winter in a row that real GDP has contracted. The revision of the change in final domestic demand was slightly more positive: it ticked up from +0.7% to +0.8%.
- Real consumption growth was revised downwards slightly, from 1.9% to 1.8%. The revisions of investment are positive, but still modest.
- The contribution from changes in inventory was slashed by more than half.
- The already significant negative impact from real net exports was greatly magnified. Negative export growth went from -7.2% to -7.6%. But it is the import numbers that are the problem: their increase surged from 1.8% to 5.6%.

COMMENTS

Once the trade balance data for March were released, at the beginning of May, we knew we should expect a downwards revision to the already sluggish real GDP growth of the first quarter. The data on business inventories that was made public in the past weeks confirmed that expectation. The decline in real GDP is due not only to harsh weather conditions, but to other factors that put a strain on the economy, in particular the labour dispute at West Coast ports (the end of which triggered a stronger rebound in imports than in exports in March), the appreciation of the U.S. dollar and the plunge in oil sector investments.

We must point out, however, that this weakness in real GDP appears in part to be “artificial.” Even in the seasonally adjusted data, we have seen, in the past several years, much slower real GDP growth in the first quarter compared with the results of other quarters. The Bureau of Economic Analysis is aware of the situation and should take corrective measures during the annual revision of national accounts at the end of July.

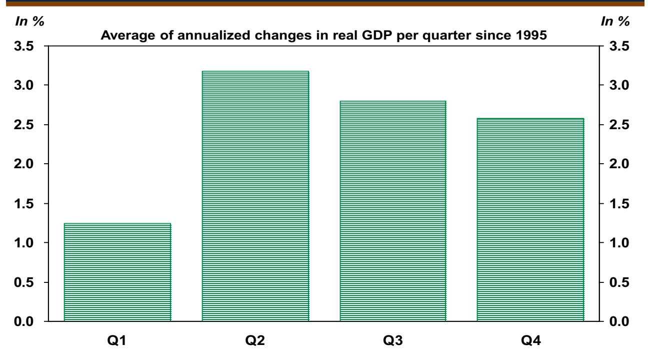
The downwards revision of real GDP comes mainly from inventories and imports

Contributions to real GDP growth in the first quarter of 2015

GDP components	First estimate (in % points)	Second estimate (in % points)	
Personal consumption	1.31	1.23	-0.08
Residential investment	0.04	0.16	+0.12
Non-residential private investment	-0.44	-0.37	+0.07
Government expenditures	-0.15	-0.20	-0.05
Exports	-0.96	-1.03	-0.07
Imports	-0.29	-0.87	-0.58
Changes in inventory	0.74	0.33	-0.41
TOTAL	0.2	-0.7	-0.9
Final domestic demand	0.7	0.8	+0.1

Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Real GDP growth is generally weaker in the first quarter



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Implications: Contraction in real GDP is a hard blow, suggesting that the U.S. economy is still fragile. As was the case last year, we can only hope for a rebound in the second quarter, but so far there are too few indicators suggesting one. Without a sharp acceleration in growth, the Federal Reserve could well defer its first key interest rate hike further into the future.

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