



## UNITED STATES

### Real GDP slows, but domestic demand remains strong

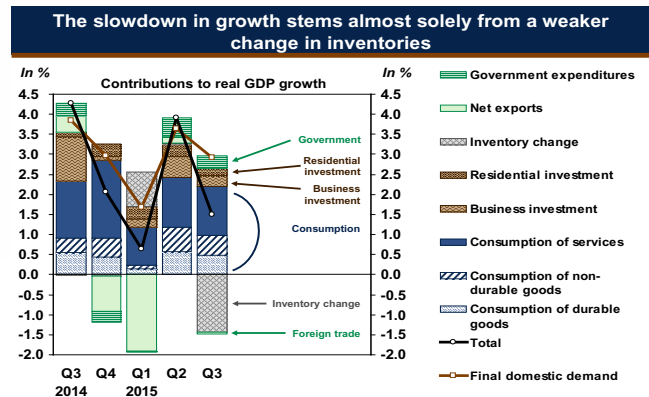
#### HIGHLIGHTS

- Real GDP only rose 1.5% (annualized) in the third quarter of 2015 according to the advance estimate for national accounts. This represents a slowdown compared with the 3.9% gain recorded in the spring. Final domestic demand still advanced 2.9%.
- Real consumption increased 3.2%. Growth was positive for both goods (+4.5%) and services (+2.6%).
- Business investment advanced 2.1% following a more solid 4.1% increase in the spring. Investment in equipment was up 5.3%, the strongest rise in a year. Non-residential construction fell 4.0%, however. Residential investment climbed 6.1%, slowing somewhat compared with previous quarters.
- The main negative contribution was from movement in business inventories. Their change went from US\$113.5B to US\$56.8B, taking a 1.44 percentage point bite out of real GDP growth, the worst since fall 2012.
- Foreign trade's contribution was almost nil (-0.03 percentage points). Real exports increased 1.9%, while imports grew 1.8%.
- Government expenditures grew 1.7% after a more notable 2.6% increase in the spring. Federal government spending expanded slightly by 0.2%, but growth remained fairly strong among states and municipalities, with a 2.6% increase.

#### COMMENTS

After a strong 3.9% annualized advance in the second quarter, it was fairly clear that real GDP was expected to catch its breath over the summer. The 1.5% rise posted by the advance estimate is fairly in line with consensus forecast.

However, there are very few negative elements in today's results. In fact, only three real GDP components contracted: non-residential construction (essentially due to a 47.1% plummet in the oil sector), federal government military spending and the change in inventory. For the latter, it should be noted that inventories had risen considerably



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

during the previous quarters and that an adjustment had become necessary.

The main take away is that domestic demand remains strong. From spring 2014 to last summer, annualized gains in demand were 3.6%, 3.8%, 3.0%, 1.7% (last winter's temporary difficulties), 3.7% and 2.9%. The U.S. economy is therefore still strong.

**Implications:** After the weakness of last winter and the rebound in the spring, U.S. real GDP growth was more somber during the summer. It remains to be seen if production will experience another rebound in the fourth quarter. If signs of this are quick to manifest, the Federal Reserve may opt to increase key rates at the end of the year. Otherwise, a first increase in March 2016 looks more likely.

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