Economic News

Desjardins Economic Studies
www.desjardins.com/economics

January 29, 2016

UNITED STATES

More weak growth in real GDP

HIGHLIGHTS

- Real GDP rose 0.7% (annualized) in the fourth quarter of 2015 according to the advance estimate for national accounts. This represents a slowdown compared with the summer's 2.0% gain and the spring's 3.9% gain. Final domestic demand advanced 1.6%.
- For 2015 as a whole, real GDP was up 2.4%, the same pace as for 2014, but an improvement over the 1.5% recorded in 2013.
- Real consumption increased 2.2%. Durable goods grew fairly well (+4.3%), but non-durable goods slowed from 4.2% to 1.5%. Services were up 2.0%.
- Business investment slipped for the first time since summer 2012, falling 1.8%. Non-residential construction fell 5.3% and investment in equipment contracted by 2.5% (following a strong 9.9% gain). Residential investment increased 8.1%. The change in inventories went from US$85.5B to US$68.6B, taking a 0.45 percentage point bite out of real GDP growth.
- Foreign trade also contributed negatively to growth, taking a 0.47-point bite. Real exports fell 2.5%, while imports rose 1.1%.
- Government expenditures only rose 0.7% in the fall. Of particular note is the 0.6% pullback in spending by states and municipalities. Federal expenditures rose 2.7 %.

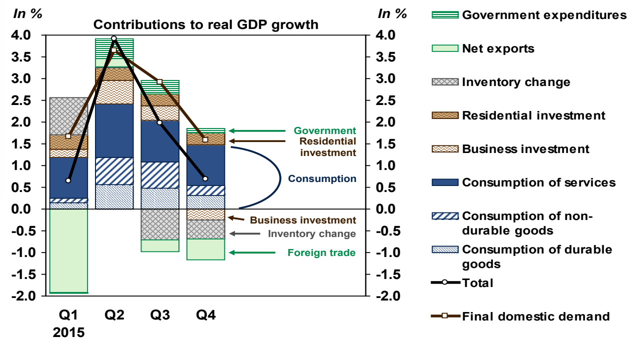
COMMENTS

For 2015, the ending was practically the same as the beginning: weak growth in U.S. real GDP. However, the modest growth released today is not a big surprise; the consensus was calling for an increase of just 0.8%.

We do note that real consumption beat expectations. This is especially seen in services, where the impact of weak heating demand was smaller than anticipated, in addition to being offset by other sectors.

The contraction in investment is more severe than expected, however. The impact of falling oil prices on investment was again apparent in the fall, with an annualized 38.5% decrease in mining, shalt and wells. Investment of this kind plummeted 51.0% in one year. The contraction in investment in equipment (especially transportation equipment) is disappointing, as expectations suggested a small expansion.

Along with inventories and net exports, business investment made a negative contribution to real GDP growth



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

The strength of the U.S. dollar continues to hurt net exports, which have only had two positive quarters since the beginning of 2014. We fear that 2016 will not be better on this front. However, we hope for better in government expenditures. The recent budget agreement between Congress and the White House should support federal spending. After a seemingly temporary tumble, state and municipality spending should quickly rise.

Implications: At 2.4% for the year as a whole, real GDP growth was disappointing compared with expectations set a year ago. Some of the curbs on growth observed in 2015 should continue to materialize in 2016. As such, the Federal Reserve will remain very cautious.

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