Economic News

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April 28, 2016

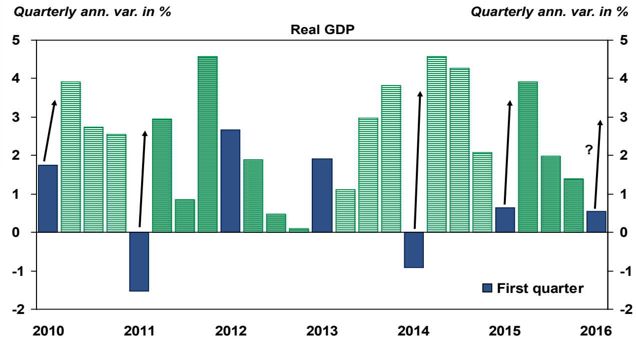
UNITED STATES

Another weak first quarter

HIGHLIGHTS

- Real GDP rose an annualized 0.5% in the first quarter of 2016, according to the advance estimate of the national accounts. It is the weakest real GDP growth in two years. Final domestic demand increased 1.2%.
- Real consumption went up 1.9%. Consumption of durable goods has contracted (-1.6%) for the first time since spring 2011. Consumption of non-durable goods rose a modest 1.0%. Services posted stronger than anticipated growth, rising 2.7%.
- Non-residential business investment fell for a second straight quarter. Its 5.8% drop follows last fall's 2.1% retreat. Non-residential construction declined 10.6%, and investment in equipment contracted 8.6%. Residential investment is up 14.9%. Inventory movement went from US$78.3B to US$60.9B, taking 0.33 percentage points from real GDP growth.
- International trade also made a negative contribution to growth, taking a 0.34-point bite. Real exports declined 2.6%, while imports advanced 0.2%.
- Government expenditures increased 1.2% last fall, despite a 1.6% pullback in federal spending. State and municipal spending went up 2.9%.

In recent years, first quarters have been weaker, but often come with spring rebounds



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

COMMENTS

There is a strong similarity between subsequent years. In the first quarter of 2014, real GDP posted an annualized change of -0.9%; in the same quarter of 2015, growth was just 0.6%. This year, the first quarter of 2016 is showing an anaemic 0.5% gain. Apparently, we will have to get used to soft U.S. economic growth in the winter. The consensus forecast was for very modest growth for the start of this year, at 0.7%, so the disappointment will not be too great. Thankfully, we must also note that these reversals are usually followed by a spring rebound, like the 4.6% gain posted in Q2 2014, and the 3.9% gain in 2015.

Still, U.S. economic growth has been sliding since the spring of 2015. This can mainly be seen in consumption, especially of durable goods. The contraction there contrasts sharply with the average gain of 6.2% recorded between 2012 and 2015. The other major guilty party is business investment, where the 5.9% decline is the worst since the recession. The drop was largely triggered by the oil sector: investment in oil and natural gas structures plunged an annualized 86% in the first quarter. The strong U.S. dollar (which triggered the erosion in net exports) and weaker growth in business inventories were also factors that made negative contributions to real GDP growth. However, there is some balm to be found in the better than anticipated performance by residential investment and upswing in public investment by states and municipalities.

Implications: The weak real GDP growth was not unexpected and we now hope that, as in 2014 and 2015, we will see a rebound this spring. This is essential for the Federal Reserve to move forward with key interest rate increases in June.

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