Economic News

Desjardins Economic Studies

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UNITED STATES

Economic growth continues to disappoint

HIGHLIGHTS

- Real GDP rose 1.2% (annualized) in the second quarter of 2016 according to the advance estimate for national accounts. Final domestic demand advanced 2.1%.
- Real consumption rose 4.2% following modest growth of 1.6% in the first quarter. Durable goods consumption (+8.4%) was very robust, as was consumption of non-durable goods (+6.0%). In services, the increase was 3.0%.
- Non-residential business investment fell for the third straight quarter, losing 2.2%. Non-residential construction plummeted 7.9% while investment in equipment was down 3.5%. Residential investment also shrank 6.1% after several quarters of strong growth. Inventory movement went from a gain of US$40.7B to a drop of $US8.1B, taking a hefty 1.16 percentage point bite out of real GDP growth.
- International trade made a small contribution to growth (+0.23 point). Real exports advanced 1.4%, while imports slipped 0.4%.
- Government expenditures fell 0.9% in the second quarter, reflecting a reduction in federal spending on defence (-3.0%) and in spending by states and local governments (-1.3%).

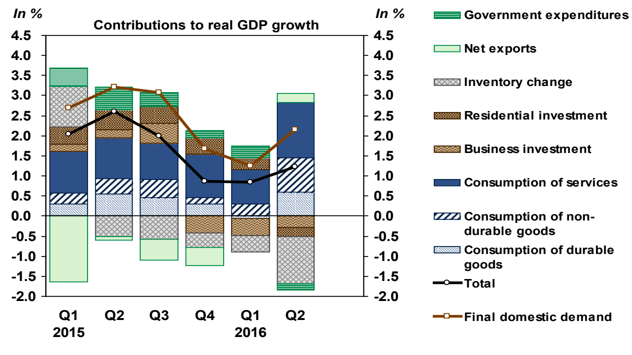
COMMENTS

There was major disappointment in the United States this morning. After a challenging first quarter, clear acceleration in the U.S. economy was expected in the second quarter. Ultimately, real GDP grew only 1.2%, around half of the pace the consensus had expected. In addition, already modest growth for the two previous quarters was revised down to slightly below 1%.

But the statistics released this morning did contain one piece of good news. The anticipated recovery in household spending was confirmed, as this component jumped 4.2% in the second quarter, its strongest performance since the end of 2014. This advance in spending alone pushed real GDP up by nearly 3.0%.

While international trade and government expenditures had little impact on GDP, the problem stemmed from investment. A third consecutive decline in business investment is concerning, even though we can hope that the coming quarters will be somewhat more favourable now that activity seems to have stabilized in the oil industry. Falling business inventories also did serious damage in the second quarter. The sharp drop in residential investment was an unpleasant surprise, but other statistics on the housing market remain relatively encouraging.

Consumption was robust, but investment and inventories hampered growth



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Implications: Weak U.S. growth in the second quarter largely reflects the surprising decline in business inventories and in residential investment. We can hope that these decreases will not be replicated in the second half of the year. Lacklustre business investment is more worrisome. The Federal Reserve, which had recently regained some optimism, will certainly be disappointed with this morning's results. The door to raising rates in September seems to be closing already.

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Note to readers: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.