Economic News

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UNITED STATES

Real GDP expands a bit faster than expected

HIGHLIGHTS

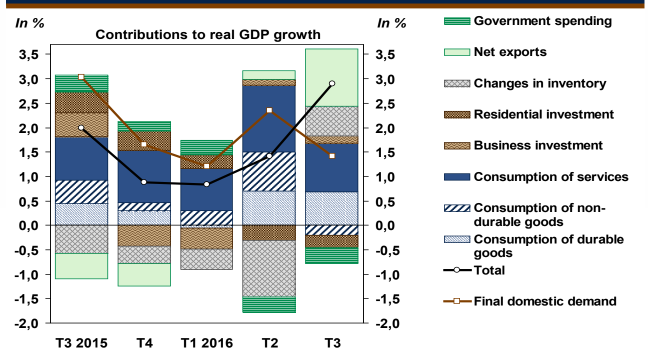
- Real GDP grew at an annualized pace of 2.9% in the third quarter of 2016, according to the first estimate of national accounts. This is the strongest real GDP growth in two years. Final domestic demand advanced by 1.4%.
- Real consumption was up by 2.1%. We note a contraction in the consumption of non-durable goods (-1.4%). Consumption of durable goods shot up by 9.5%. As for services, the increase is a little weaker than expected: 2.1%.
- Business non-residential investment was up for the second time in a row. As was the case in the spring (1.0%), the upturn is a modest one: 1.2%. Non-residential construction surged by 5.4% after five declines in six quarters. Investment in equipment is still on a negative trend, with a slump of 2.7%. Residential investment tumbled by 6.2%, its second consecutive contraction. Inventory movement skyrocketed from -US$9.5B to +US$12.6B, making a positive contribution of 0.6 percentage points to real GDP growth.
- Foreign trade also made a positive contribution to growth, with an infusion of 0.8 points. Real exports soared by 10.0%, while imports ticked up by 2.3%.
- Government spending edged up by 0.5% during the summer, despite a 0.7% dip in spending by states and municipalities. Federal spending rose by 2.5%.

COMMENTS

This annualized 2.9% growth in real GDP is a nice surprise after several quarters of far more sluggish growth. The average real GDP growth over the previous three quarters was just 1.0%. So, as expected, the U.S. economy appears to be gathering steam in this second half of 2016.

However, we would point out that nearly half of the growth comes from the foreign trade sector and from changes in inventory. Thus, the improvement in GDP is hiding some weakness in final domestic demand, which posted its limpest growth since mid-2013, excluding the very disappointing data of last winter. Consumption has proven to be softer than expected, and we note that spending on non-durable goods has lost ground for the first time since the end of 2012, with slumps in clothing and gasoline.

Real GDP accelerated, but growth in final domestic demand slowed



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Investment is still sluggish in the United States. It is now four consecutive quarters that investment in equipment has been in decline, for a total (non-annualized) pullback of 4.5%. While that trend continued during the fall, the recent upturn in the ISM indexes would suggest that we can look forward to a better performance in the fourth quarter. We can also hope that non-residential construction will continue its incipient improvement. The oil sector pulled back once again, but that negative factor should soon reverse itself and head towards growth, along with the rest of the construction sector.

Implications: As expected, real GDP picked up steam in the third quarter, and a similar performance is expected for year-end. It is to be hoped that domestic demand will also firm up. The data released today are unlikely to encourage the Federal Reserve to make haste; it will wait until December before raising its key interest rate.

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