ECONOMIC NEWS

United States: Another quarter of modest real GDP growth wraps up a disappointing year

HIGHLIGHTS

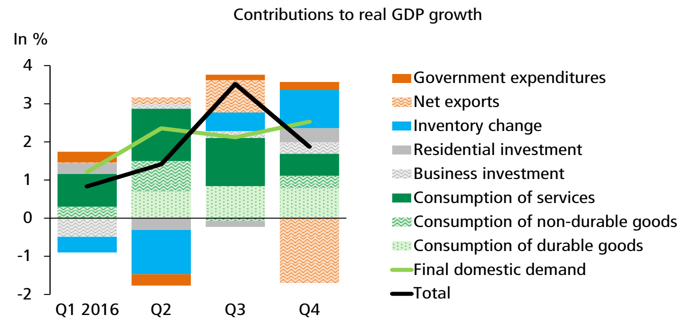
- Real GDP rose an annualized 1.9% in the fourth quarter of 2016, according to the advance estimate of national accounts, slowing from last summer's 3.5% gain. Final domestic demand increased 2.5%.
- For 2016 as a whole, real GDP grew 1.6%, coming in below 2015's 2.6% growth.
- Real consumption went up 2.5%. Goods posted a solid advance of 5.2%, while services increased just 1.3%.
- Business investment rose 4.2%. Non-residential construction declined 5.0% and investment in equipment rose 3.1%. Residential investment is up 10.2%. Inventory movement went from US$7.1B to US$48.7B, making a 1.00 percentage point contribution to real GDP growth.
- Foreign trade made a negative contribution to growth, taking a 1.70-point bite. Real exports declined 4.3%, while imports jumped 8.3%.
- Government expenditures increased by just 1.2% last fall.

COMMENTS

The real GDP growth recorded in Q4 2016 came in below the consensus forecast, which was calling for a gain of 2.2%. In fact, in 2016, only the third quarter beat expectations when initially published; the results were also disappointing for the year's first two quarters. This reflects on the entire year; 2016's real GDP growth is the weakest since 2011.

Of the factors that hurt growth last fall, foreign trade did the most damage. Exports were expected to decline, but the lively jump in imports made the bite bigger, offsetting the stronger contribution from the change in inventories. The results for domestic demand are essentially as expected, except for non-residential construction, which is much lower than anticipated. Declines in construction associated with manufacturing (-24.4%) and the energy and communications sector (-18.0%) offset the comeback by oil sector investment (+24.5%).

GRAPH
The slowdown by Q4 growth mainly stems from net exports



Sources Bureau of Economic Analysis and Desjardins, Economic Studies

IMPLICATIONS

The slight 1.9% gain in the last quarter of 2016 is especially disappointing. The weakness contrasts with the better data on confidence seen in the last few months. Let's hope those figures will have nice repercussions in 2017.

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