ECONOMIC NEWS

United States: Weak Real GDP Growth Once Again Marks the Start to a Year

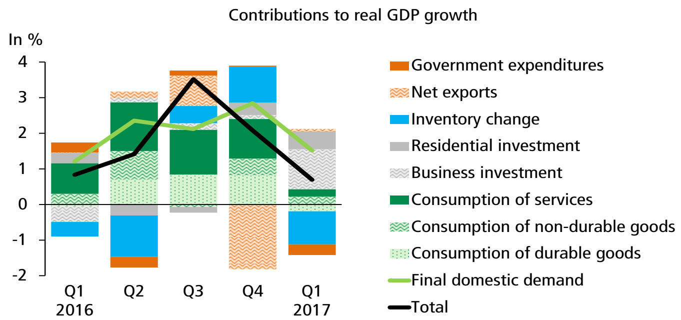
HIGHLIGHTS

- Real GDP increased by an annualized 0.7% in Q1 2017, according to the first estimate of the national accounts. This represents a slowdown from the previous gains of 2.1% and 3.5% in the fall and summer of 2016, respectively. Final domestic demand rose by 1.5%.
- Real consumption increased by 0.3%—the lowest rate of increase since the fall of 2009. A decrease of 2.5% in durable goods and an increase of 1.5% in non-durable goods was observed. Services were up only 0.4%.
- Fixed non-residential business investment grew by 9.4%—the best result since the fall of 2013. Non-residential construction jumped by 22.1% and investment in equipment grew by 9.1%. Residential investment increased by 13.7%. The change in inventories went from US$49.6B to US$10.3B, taking a 0.93 percentage point bite out of real GDP growth.
- Foreign trade made a slight contribution to growth with a 5.8% increase in exports, while imports increased by 4.1%.
- Government spending fell by 1.7% due in part to a 4.0% drop in military spending and a 1.6% pullback in spending by states and municipalities.

COMMENTS

Weak growth in real GDP in Q1 is unsurprising, and the results are in line with our forecasts and the consensus forecast. Anemic household spending could already be seen in the pullback in automobile sales and lower heating demand caused by an unusually mild winter. The fact remains that the weakness in consumption is in stark contrast to most consumer confidence indexes.

GRAPH
Weak growth is largely due to a slowdown in consumption



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

We can be happy about the acceleration in investment, which is in line with the strong performance of indicators such as the ISM indexes. Non-residential construction in particular has benefited from a turnaround in the oil sector, whose annualized increase reached 450.9% in Q1! The solid investment figures are nevertheless counterbalanced by weaker than expected growth in business inventories, which ultimately is not particularly bad news.

IMPLICATIONS

Weak growth in real GDP in Q1 is similar to the disappointing numbers at the starts of several recent years. The Federal Reserve will want to make sure that consumption strengthens before continuing with interest rate hikes.

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