U.S. Economic Growth Good, But Not Great

HIGHLIGHTS

- According to the advance estimate of national accounts, real GDP increased 2.6% (annualized) in the second quarter of 2017. Final domestic demand was up 2.4%.

- Real consumption increased by 2.8%. There was a sharp rebound of 6.3% for durable goods after a slight decline in the first quarter, and a 3.8% increase for non-durable goods. Services went up 1.9%.

- Fixed non-residential business investments were up 5.2%, slightly slower than the 7.2% increase in the first quarter. Non-residential construction went up 4.9% and investments in equipment grew 8.2%. After an 11.1% jump in the first quarter, residential investment plummeted 6.8%. Inventory movements went from a slight rise of US$1.2 billion to a slight decline of US$0.3 billion.

- Foreign trade boosted real GDP growth by 0.18% due to a 4.1% increase in exports, while imports rose 2.1%.

- After a pullback in the first quarter, government spending was up slightly by 0.7%, which was essentially due to the 5.2% hike in military spending.

COMMENTS

The second quarter rebound in U.S. growth is actually very close to expectations. After some temporary weakness, household consumption was back on a strong track due to a jump in spending on durable goods. Conversely, business and residential investments slowed down from the excellent performance at the beginning of the year. However, the strong 8.2% hike in business investment in equipment may be a sign of good things to come.

Revised statistics since 2014 were also released this morning, together with the advance estimate for second-quarter growth. The overall picture is slightly more positive for 2014 to 2016, but a downward revision for the most recent quarters could lower forecasts for the year 2017.

IMPLICATIONS

Overall, the figures published this morning show that the U.S. economy is performing as it should. We are still waiting however for the growth spurt that several confidence indexes had signaled. The Federal Reserve should thus only raise its key rates once more this year, most likely in December.

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