United States: Solid Real GDP Growth Despite the Hurricanes

HIGHLIGHTS

- Real GDP was up an annualized 3.0% in the third quarter of 2017, according to the advance estimate of the national accounts, a result that is similar to the 3.1% gain recorded in spring. Final domestic demand expanded by 1.8%.

- Real consumption was up 2.4%, which is more than expected but still below the 3.3% gain recorded in Q2. Durable goods advanced 8.3%, while non-durable goods were up 2.1% and services gained 1.5%.

- Non-residential fixed business investment was up 3.9%, a result that is weaker than the results for the first two quarters of 2017. Non-residential construction declined by 5.2%, but investments in equipment jumped by 8.6%. Residential investment was down 6.0%. Inventory movement soared from US$4.3B to US$30.3B, which contributed 0.73 percentage points to real GDP growth.

- The external sector supported growth, with exports advancing 2.3% and imports declining 0.8%. The contribution is 0.41 percentage points.

- Government expenditures declined by 0.1%.

COMMENTS

Uncertainty was rife about the strength of economic growth in the third quarter, due to the hurricanes that sideswiped the United States. This first real GDP estimate confirms some elements. First, certain areas of the economy were clearly adversely affected by the hurricanes, especially construction, consumption of services, and perhaps imports. Second, the post-hurricane rebound was much faster and much stronger than expected. This is most evident in the consumption of goods, especially durable goods.

However, final domestic demand was relatively weak in the third quarter—it recorded the worst growth since winter 2016. Net exports and, especially, the change in inventories saved the day for real GDP. The opposite is now expected for the end of 2017, when construction and consumption of services should jump, but inventories and imports are expected to make a softer contribution.

IMPLICATIONS

Real GDP growth in the third quarter was stronger than expected, even if the hurricanes put a dent in final domestic demand. The U.S. economy is still on a positive trend, which should prompt the Federal Reserve to keep raising its key rates in December.