United States: Weaker Real GDP Growth in the First Quarter

HIGHLIGHTS

- Real GDP rose 2.3% (annualized) in the first quarter of 2018, according to the advance estimate for national accounts. This is lower than the 2.9% gain recorded in fall 2017. Final domestic demand only rose by 1.6%.

- Real consumption increased 1.1% in the first quarter, which is slightly less than expected and is the worst result since the spring of 2013. Durable goods fell 3.3%, non-durable goods saw a slight gain of 0.1%, and services were up 2.1%.

- Non-residential fixed investment by businesses rose 6.1%. Non-residential construction rose 12.3%. Investments in equipment grew 4.7% after an 11.6% increase in the fall. Residential investment stagnated. The change in inventories went from US$15.6B to US$33.1B, adding a 0.43 percentage point to real GDP growth.

- Against all expectations, international trade contributed to the growth with a 4.8% jump in real exports, higher than the 2.6% increase in real imports. Net exports’ contribution is +0.20 points.

- Government expenditures rose 1.2%.

COMMENTS

Real GDP growth in the first quarter is fairly consistent with expectations. Note, however, that the result is lower than the gains posted in previous quarters. Since the spring 2017, average annualized real GDP growth was 3.0%. The first quarter of 2018 is thus consistent with the first quarters of previous years that also posted a slowdown. This effect should be temporary.

Winter 2018 was notable for weak consumer spending. This is the first time since 2011 that real consumption of goods saw a quarterly contraction. This weakness is surprising as confidence is very high and real disposable household income has been inflated (+3.4%) by the tax cut. We note that much of this setback is due to the automobile sector (-15.1%). Also of note is that the gain in non-residential construction is due in large part to a 37.7% jump in oil and gas investments. Also surprising is the strength of exports while monthly data did not suggest such strong performance.

IMPLICATIONS

Real GDP slowed down in the first quarter of 2018, but a rebound is expected in the spring thanks in large part to the delayed effect of tax cuts. The situation remains compatible with an increase in the Federal Reserve’s key rates during the meeting in June.

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