United States: The Economy Bounced Back Strongly in Q2

**HIGHLIGHTS**

- Real GDP rose 4.1% (annualized) in the second quarter of 2018, according to the advance estimate for national accounts. Final domestic demand advanced 3.9%. Government expenditures rose 2.1%.

- Real consumption was up 4.0% in Q2, after disappointing gains of just 0.5% in Q1. Durable goods increased 9.3%, non-durable goods saw a gain of 4.2%, and services were up 3.1%.

- Non-residential fixed investment by businesses rose 7.3%. Non-residential construction advanced 13.3% and investments in equipment expanded 3.9%. Residential investment shrank 1.1%, a second consecutive decline. The change in inventories went from a US$30.3B increase to a US$27.9B drop, taking a 1.0 percentage point bite out of real GDP growth.

- International trade made a strong contribution to growth with a jump of 9.3% in real exports, as imports inched up a mere 0.5%.

**COMMENTS**

The national accounts published this morning confirm that the U.S. economy had a spectacular rebound in the second quarter. Q1 growth was not so bad, at just over 2.0%, but the near stagnation of household spending was difficult to explain after the deep tax cuts. This morning’s data confirm that consumption was only taking a break early in the year to bounce back stronger. Domestic demand growth therefore exceeded our expectations, whereas business investment continued its quick upward momentum. The only negative comes from residential investment; we will have to watch whether the recent weakness continues, especially since interest rates are rising.

**IMPLICATIONS**

The strong GDP growth is in line with expectations, but U.S. domestic demand seems even more solid after this morning’s figures. This should back Federal Reserve leaders’ plans to continue with the gradual normalization of their monetary policy.

**GRAPH**

*After a break, spring sees consumers back in full force*

Contributions to real GDP growth

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<tr>
<th>2017</th>
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<tr>
<td>Q2</td>
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Government expenditures
Net exports
Inventory change
Residential investment
Business investment
Consumption of services
Consumption of non-durable goods
Consumption of durable goods
Final domestic demand
Total

Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Already the strongest it has been since summer 2014, U.S. economic growth in the second quarter could have reached 5% were it not for the surprising fall in business inventories. That slump almost completely wiped out the international trade’s strong positive contribution, as protectionist threats seemed to temporarily inflate U.S. exports.

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