United States: Another Strong Real GDP Growth in Q3

HIGHLIGHTS

- Real GDP rose 3.5% (annualized) in the third quarter of 2018, according to the advance estimate for national accounts. This is slightly lower than the 4.2% gain recorded in the spring. Final domestic demand advanced 3.1%.

- Real consumption rose 4.0% in the third quarter, its best result since the fall of 2014. Durable goods increased 6.9%, non-durable goods saw a gain of 5.2%, and services were up 3.2%.

- Non-residential fixed investment by businesses slowed, with an increase of only 0.8%. This slower rate of growth since the end of 2016 was largely due to a 7.9% slide in non-residential construction. Investment in equipment grew by only 0.4% after a 4.6% increase in the spring. Residential investment shrank by 4.0%. The change in inventories went from -US$36.8B to +US$76.3B, adding 2.07 percentage points to real GDP growth.

- International trade made a negative contribution to growth with a 3.5% contraction in real exports and a 9.1% spike in real imports. Net exports’ contribution is -1.78 points.

- Government expenditures rose 3.3%, which is much higher than expected.

COMMENTS

Real GDP growth in the third quarter is consistent with expectations. Growth was slightly slower compared with the strong 4.2% increase in the spring, but a 3.5% increase is still very robust. Excluding the second quarter’s results, this is the strongest growth posted since the summer of 2014. It is also practically double the potential GDP growth estimated by the Congressional Budget Office.

IMPLICATIONS

The good showing in real GDP is not surprising and the Federal Reserve is expected to continue its quarterly key rate hikes.

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