ECONOMIC NEWS

United States: Real GDP Growth Near Potential

HIGHLIGHTS

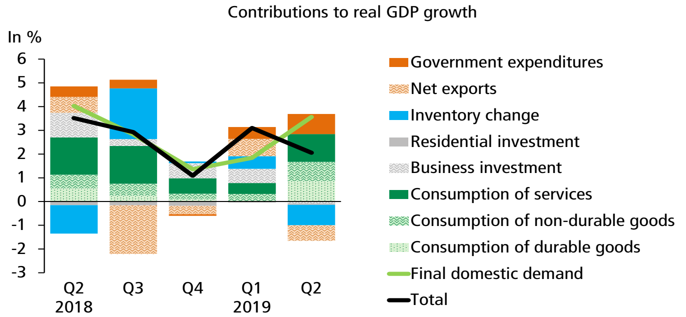
- Real GDP rose an annualized 2.1% in Q2 on the heels of a 3.1% gain in Q1.
- After two consecutive quarters with low growth, domestic demand advanced 3.5%.
- Household consumption spending jumped 4.3% due, in large part, to sustained growth in durable goods.
- Government expenditures rose 5.0%.
- However, non-residential investments declined 0.6%, while residential investments fell 1.5%.
- Goods and services exports dropped 5.2%, while imports grew 0.1%. The trade balance therefore went from -US$944.0B in 2012 dollars to -US$978.7B in 2012 dollars.
- The change in inventories slowed, contributing -0.86% to the quarterly annualized variation in real GDP.

COMMENTS

Overall, the second quarter results are consistent with our expectations. It is especially reassuring to note that the low domestic demand observed since last fall has been replaced by more sustained growth.

The only dark spot in the picture is the slight decrease in non-residential investment. This is the first time this component has declined in 13 quarters. The drop may be nothing more than a fluke. Or, it could be a sign of the negative impacts of the trade war and the climate of uncertainty surrounding global trade. The trade challenges also appear to be affecting exports, which shrank significantly in the spring. It remains to be seen how the situation will evolve in the coming months. Still, it is encouraging to note that global trade appears to be reaching some stability.

GRAPH
Domestic demand regained strength in the second quarter of 2019



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

IMPLICATIONS

The growth in real GDP in the second quarter wasn't bad, per se. It has practically reached the U.S. economy's growth potential, assessed at 2.2% for the period by the Congressional Budget Office (CBO). Still, it would be surprising to see this relatively good outcome prevent the monetary authorities from lowering their key rates by 25 basis points when they meet next week. The Federal Reserve's focus will be aimed more closely on the low growth in prices and on the international uncertainty; the door remains wide open to a rate drop in this regard. However, where things go from here could be even more uncertain, especially if domestic demand remains strong.

Benoit P. Durocher, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics