

ECONOMIC NEWS

United States: Real GDP Is Maintaining Its Cruising Speed

HIGHLIGHTS

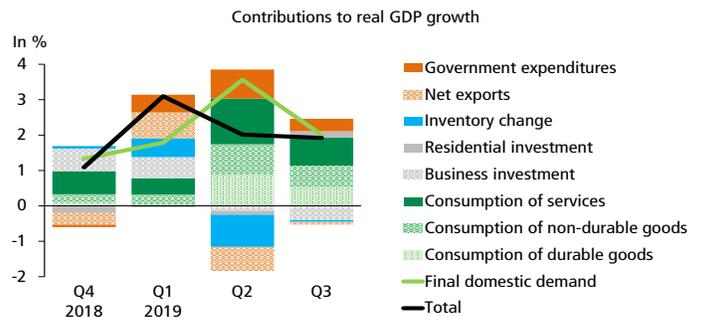
- ▶ U.S. real GDP rose 1.9% (annualized) in the third quarter of 2019, according to the advance estimate of national accounts. This result is similar to the 2.0% gain recorded in the spring. Final domestic demand increased 2.0%, following a 3.6% leap in the second quarter.
- ▶ Real consumption was up 2.9% in the third quarter, after increasing 4.6% in the spring. Durable and non-durable goods saw gains of 7.6% and 4.4%, respectively. Growth in services was a mere 1.7%.
- ▶ Non-residential fixed investment by businesses slumped 3.0%, the biggest drop since fall 2015. Non-residential construction plummeted 15.3%, the fourth decline in five quarters. Investment in equipment retreated 3.8%. Investment linked to intellectual property products (software, research and development, etc.) saved the day somewhat with a 6.6% increase. Residential investment grew 5.1%, the first time it has moved upward since the end of 2017.
- ▶ The external sector made a slightly negative contribution, as the rise in real imports (+1.2%) was a tad higher than that in exports (+0.7%). Government expenditures rose 2.0%.

COMMENTS

Annualized real GDP growth was a hair above the consensus forecast of 1.6%. However, U.S. economic growth seems to be neither here nor there. On the one hand, it is no stronger than it was a year ago. The effects of tax cuts have faded and the trade war is undermining the outlook for business investment. On the other hand, consumers are holding up well and lower interest rates are now having positive effects, as reflected by the increase in residential investment after six consecutive quarters of declines. It remains to be seen what the next few quarters will bring. Unless there is a sudden rebound, the weakness in ISM indexes suggests that investment will continue to be problematic. The most recent U.S. tariff hikes on China could also

GRAPH

Real GDP holds, while final domestic demand slows



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

affect consumers. A potential setback in the auto sector due to the (now finished) GM strike is possible. As a result, everything is still up in the air.

IMPLICATIONS

The nearly 2% growth in U.S. GDP is close to its potential, a situation that could keep Federal Reserve leaders happy. Nevertheless, while they are expected to decide on a further rate cut this afternoon, additional signs of a slowdown would be needed to convince them to introduce a new round of monetary accommodation.

Francis Généreux, 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

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2019, Desjardins Group. All rights reserved.