

ECONOMIC NEWS

United States: One Foot in Recession

HIGHLIGHTS

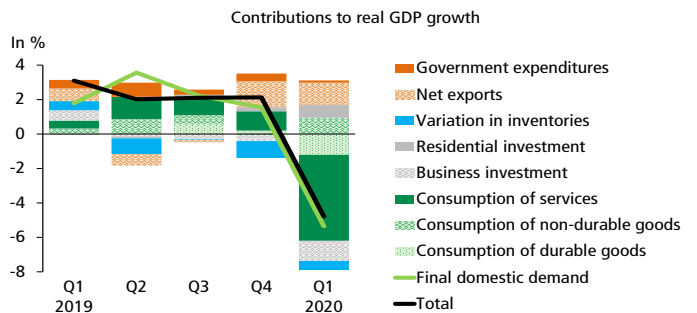
- ▶ Real GDP dropped 4.8% (annualized) in the first quarter of 2020, according to the advance estimate of national accounts. This is the first quarterly drop in real GDP since winter 2014 and the sharpest one since 2008.
- ▶ Real consumption was down 7.6% in the first quarter, after increasing 1.8% in fall 2019. Durable goods dropped 16.1%, while non-durable goods saw gains of 6.9%. Services dropped 10.2%.
- ▶ Non-residential fixed investment by businesses fell 8.6%, a fourth straight decline. Non-residential construction contracted 9.7%. Investment in equipment fell 15.2%. Investment linked to intellectual property products increased by 0.4%. The variation in business inventories was -US\$16.3B, a first net drop since spring 2018. Residential investment climbed 21.0%, its highest increase since 2012.
- ▶ International trade made a positive 1.30 percentage point contribution. Real imports dropped 15.3%, while exports decreased 8.7%.
- ▶ Government expenditures rose 0.7%.

COMMENTS

The drop in real GDP in the first quarter is misleading. It hides two separate periods—some 10 weeks of growth, and then barely two weeks of contraction starting in mid-March. It is the abrupt drop in activity at the very end of the period that brought the quarterly average toward negative results. Unsurprisingly, the sector most affected by voluntary or imposed isolation and social distancing measures—the service sector—alone trimmed 4.99 percentage points from growth. The annualized drop of 33.2% in motor vehicle sales did not help either. On the non-durable goods side, an increase in food consumption (+25.1%) more than offset major losses in other sectors, in particular clothing (-36.0%).

GRAPH

Public health and isolation measures resulted in a steep drop in service consumption



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Investment and net exports are also in contrast with the beginning of the year, when the drop in trade tensions suggested an improved outlook. Like consumption, investment and most other GDP components should be even more negative in the second quarter.

IMPLICATIONS

The U.S. economy is now in a period of contraction, or recession, caused by the COVID-19 pandemic. The drop in real GDP in the first quarter sets the scene for an even steeper drop in the second quarter. What comes next will depend on how the COVID-19 pandemic evolves.

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 © 2020, Desjardins Group. All rights reserved.