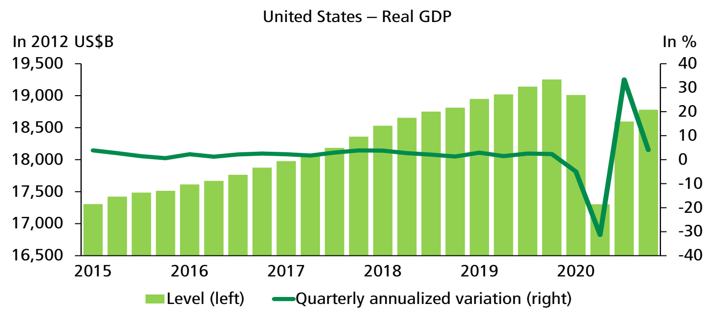
ECONOMIC NEWS

United States: Economy Sputters in the Fourth Quarter

HIGHLIGHTS

- U.S. real GDP rose 4.0% annualized (1.0% non-annualized) between the third and fourth quarters of 2020, right after the quarterly annualized variations of -5.0% in the first, -31.4% in the second and +33.4% in the third quarter of 2020. Real GDP remains 2.5% below its level at the end of 2019.
- For 2020 as a whole, real GDP fell 3.5%, the worst decline since 1946.
- Real consumption increased a mere 2.5% annualized between the third and fourth quarters. Durable goods stagnated (0.0%), while non-durable goods fell 0.7%. Annualized growth in services was 4.0%.
- Non-residential fixed investment by businesses jumped 13.8%, after surging 22.9% in the third quarter. Non-residential construction rose 3.0%, its first increase since the summer of 2019. Investment in equipment soared 24.9%. Investment linked to intellectual property products grew 7.5%. The change in inventories went from -US$3.7B to +US$44.6B, adding 1.04 percentage points to real GDP growth. Residential investment grew 33.5%.
- The international trade sector contributed -1.52 points to real GDP growth, with real imports (+29.5%) exceeding real exports (+22.0%).
- Government expenditures declined 1.2%.

GRAPH
The U.S. economy remains well below its pre-COVID-19 level



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

COMMENTS

It was obvious that the U.S. economy would not rebound as it had in the third quarter, which was propelled by the easing of the restrictive measures implemented at the start of the COVID-19 crisis. A return to more "normal" growth had been anticipated. Still, the quarterly annualized increase of 4.0% is somewhat disappointing, as it suggests that economic activity deteriorated as the public health situation worsened in the fall. This is especially evident in real consumption, with October and November's numbers posting an annualized carryover of 4.6%. Therefore, the 3.5% increase in real consumption is signalling that household spending was down significantly in December. In short, real consumption remains 2.6% lower than it was at the end of 2019.

In contrast, business investment grew faster than anticipated. Business activity doesn't seem to be affected as much as consumption by the wave of COVID-19 that swept through the fall and the public health measures imposed to combat it. Non-residential fixed investment has fallen 1.4% in the last year. Of particular note is the 13.7% increase in residential investment since the end of 2019.

IMPLICATIONS

Fourth-quarter growth was disappointing, confirming that the wave of COVID-19 had negatively impacted the economy during the holiday season. However, government aid and the vaccines should provide a boost in 2021.

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