ECONOMIC NEWS

United States: Will the Weather and Seasonal Effects Impact First Quarter Real GDP?

Several economic indicators are showing nice improvement in the United States. Paradoxically, we expect a weak advance in real GDP in the first quarter. Of the factors underlying this underperformance, we note two items that also hampered growth in the first quarters of prior years: the weather and problems with seasonal adjustments.

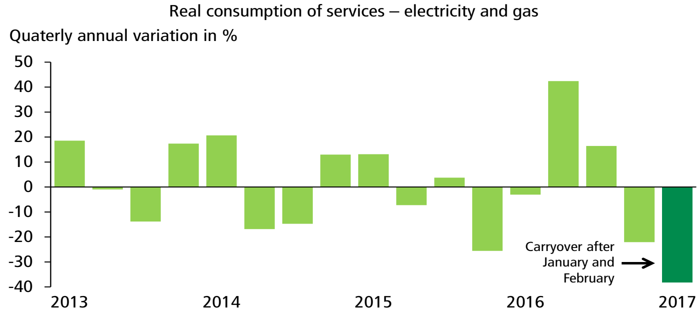
Weather often impacts economic growth. Think back to the "polar vortex" during winter 2013-2014. Storms also play a role. This year, it's unusually mild weather that is making the difference. Above-average temperatures have depressed household energy demand. This component represents less than 2% of total consumer spending, but it is one of the most volatile, whereas other service spending is much more stable. After two months, spending on electricity and gas had a negative carryover of close to 40%. Without a rebound in March, it will be the worst drop since data has been collected. This pullback has already driven down total real consumption during January and February.

The other phenomenon is more statistical in nature. For several years, economic growth has generally been less robust in the first quarter. The difference has been around 1% since the middle of the 1990s (it lessens if we exclude the years of recession). The Bureau of Economic Analysis has already tried to address the situation in one of its historical revisions, but the seasonal effect seems to remain and it could again impact growth for early 2017.

IMPLICATIONS

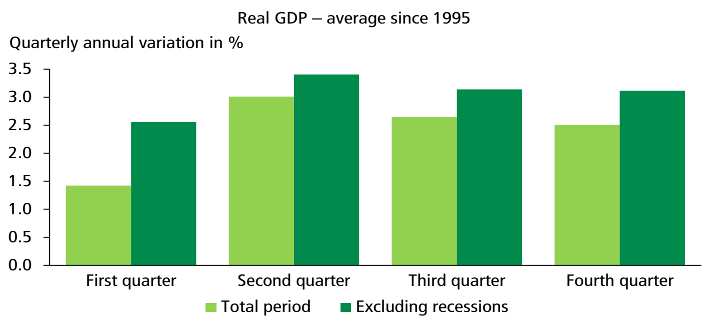
These factors suggest that U.S. real GDP growth will be weak in the first quarter, despite good performance by confidence indexes and the job market. However, they also suggest a rebound in real GDP as early as spring. The Federal Reserve could account for this situation by waiting until September before raising its key rates.

GRAPH 1
Warmer weather leads to a decrease in household energy spending



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

GRAPH 2
Growth is historically weaker in the first quarter each year



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

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