

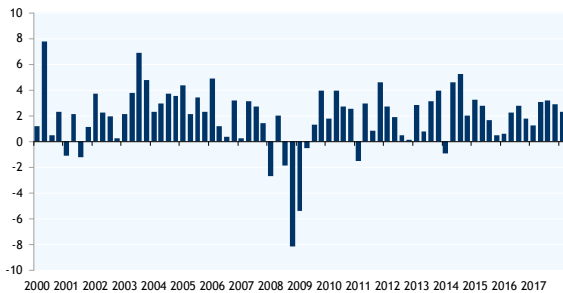


U.S. NATIONAL GDP ACCOUNTS

April 27, 2018

Real GDP: U.S.

Annualized quarter-over-quarter % change



Source: Bureau of Economic Analysis, RBC Economics

U.S. GDP growth slowed only modestly in Q1

- US Q1 GDP rose 2.3% — the softest in 4 quarters but above market expectations for a 2.0% gain and still a solidly ‘above-potential’ pace.
- Consumer spending growth slowed but following an outsized gain in Q4.
- Price growth showed further signs of firming. The core PCE deflator was up 1.7% on a year-over-year basis but jumped 2.5% (annualized) from Q4.

Our Take:

The 2.3% rise in Q1 GDP was still the slowest of the last 4 quarters but was slightly ahead of market expectations and above the 1.8% the Federal Reserve’s estimates as the long-run underlying ‘trend’ rate. Business investment rose a solid 6.1%, its eight straight quarterly gain. Net exports also added modestly to growth after subtracting more than a percent from the Q4 GDP growth rate. Consumer spending was the main offset with just a 1.1% increase. That’s less disappointing, though, following the unsustainably strong 4.0% surge in Q4. Job growth has remained solid, on balance, and wages have been drifting higher. Along with tax cuts and still low interest rates, that leaves little reason for concern about underlying household income/spending trends.

Indeed, there has been little reason for concern about the strength of the U.S. economy for a while, with most indicator suggesting activity is already running at or beyond long-run capacity limits — and yet growth still running at an ‘above-potential’ pace. Perhaps the more important data point from the Q1 GDP release was a 2.5% (annualized) jump in the core PCE deflator from Q4. The year-over-year rate still averaged just 1.7% for Q1 as a whole but year-over-year rates have been biased lower by a big drop in telecom prices last March. The monthly price deflator numbers for March will be released next Monday and we expect will show the PCE deflator ticking up close-to or at the Fed’s 2% inflation objective after rising closer to 1 1/2% in January and February. The economy clearly looks strong enough to warrant a continuation of the current gradual rate hiking cycle.

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	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18
Consumer Spending	1.9	3.3	2.2	4.0	1.1
Durables	-0.1	7.6	8.6	13.7	-3.3
Non-Durables	1.1	4.2	2.3	4.8	0.1
Services	2.5	2.3	1.1	2.3	2.1
Business Fixed Investment	8.1	3.2	2.4	8.2	4.6
Residential	11.1	-7.3	-4.7	12.8	0.1
Non-residential Structures	14.8	7.0	-7.0	6.3	12.3
Equipment and Software	4.4	8.8	10.8	11.5	4.7
Government Spending	-0.6	-0.2	0.7	3.0	1.2
Inventory Change (\$ bn)	1.2	5.5	38.5	15.6	33.1
Final domestic demand	2.4	2.7	1.9	4.5	1.6
Exports of Goods and Services	7.3	3.5	2.1	7.0	4.8
Imports of Goods and Services	4.3	1.5	-0.7	14.1	2.6
Real GDP	1.2	3.1	3.2	2.9	2.3

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