



U.S. NATIONAL GDP ACCOUNTS

October 27, 2017

US GDP jumped higher again in Q3 despite severe weather

- **US Q3 GDP rose 3.0% — marking a second-consecutive quarter of ‘above-potential’ growth following a similar 3.1% Q2 gain.**
- **The Fed will likely be encouraged by both the headline growth number and the composition — in particular another solid gain in business investment.**
- **Our forecast assumes further gradual interest rate hikes from the Federal Reserve will be warranted. We look for another 25 basis point hike in December and another 4 over the course of 2018.**

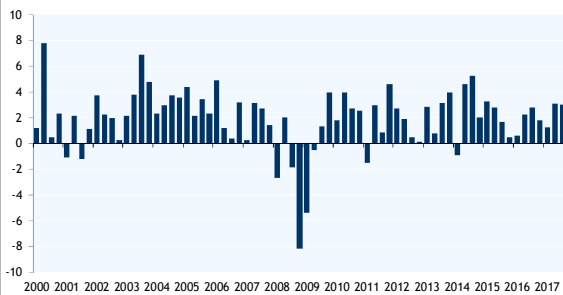
Our Take:

The 3.0% gain in Q3 GDP marks a second consecutive quarter of growth well-above the economy’s long-run ‘potential’ growth rate. Alongside another drop in the unemployment rate in Q3, that should provide further reassurance that output continues to grow at a pace that is strong enough to absorb any remaining excess capacity in the economy. The composition of growth was also relatively favourable. Household spending growth slowed but probably in part due to the hurricanes and business investment rose solidly for a third straight quarter despite the severe weather. Business investment was largely a missing component of growth in 2016, so the emergence of a more ‘balanced’ growth profile in 2017 — less dependent on household spending alone — has been a positive development that appears to be persisting.

Inflation pressures have admittedly remained benign, with growth in the core PCE deflator slowing further in Q3. Inflation also typically lags the economic cycle, though, so an economy that otherwise now looks close to capacity limits continues to suggest that price growth will rise rather than fall going forward. We don’t think the Fed will opt to hike rates following next week’s policy meeting after announcing tapering asset holdings at the last meeting in September. The relatively strong flow of recent data, though, should further strengthen already widely-held expectations that monetary policymakers will raise the fed funds target range by 25 basis points for a third time this year in December

Real GDP: U.S.

Annualized quarter-over-quarter % change



Source: Bureau of Economic Analysis, RBC Economics

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	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17
Consumer Spending	2.8	2.9	1.9	3.3	2.4
Durables	9.4	9.2	-0.1	7.6	8.3
Non-Durables	0.1	2.5	1.1	4.2	2.1
Services	2.7	2.1	2.5	2.3	1.5
Business Fixed Investment	1.5	1.7	8.1	3.2	1.5
Residential	-4.5	7.1	11.1	-7.3	-6.0
Non-residential Structures	14.3	-2.2	14.8	7.0	-5.2
Equipment and Software	-2.1	1.8	4.4	8.8	8.6
Government Spending	0.5	0.2	-0.6	-0.2	-0.1
Inventory Change (\$ bn)	17.6	63.1	1.2	5.5	35.8
Final domestic demand	2.2	2.3	2.4	2.7	1.8
Exports of Goods and Services	6.4	-3.8	7.3	3.5	2.3
Imports of Goods and Services	2.7	8.1	4.3	1.5	-0.8
Real GDP	2.8	1.8	1.2	3.1	3.0

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