

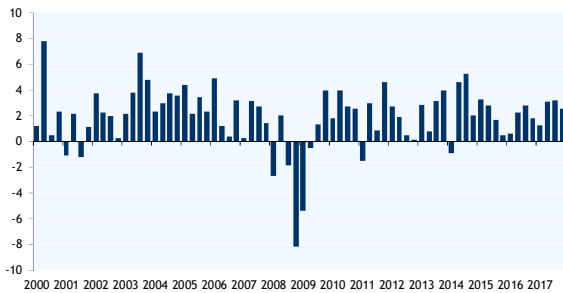


## U.S. NATIONAL GDP ACCOUNTS

January 26, 2018

### Real GDP: U.S.

Annualized quarter-over-quarter % change



Source: Bureau of Economic Analysis, RBC Economics

## Solid 2.6% increase in U.S. GDP in Q4/17

- US Q4 GDP rose 2.6% — down slightly from the 3% increases in Q2 and Q3 but still a solidly ‘above-potential’ pace.
- 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 don’t expect the Fed to hike next week but look for another 4 increases over the course of 2018.

### Our Take:

The 2.6% headline GDP increase was slightly below market expectations for a 3% gain but despite a whopping 4.3% jump in final domestic demand. Household spending accounted for a big chunk of that increase with consumer spending up 3.8% and residential investment jumping almost 12%. Business nonresidential investment also rose solidly, though, at a 6.8% rate. That marked a 7th consecutive quarterly gain in business spending. All of that domestic demand growth drove imports higher by 13.9%. That left net trade subtracting more than a percentage point from headline GDP growth despite a solid 7% increase in exports. Inventories also built at a slower pace, subtracting 0.7 percentage points from headline growth.

The pace of Q4 GDP growth is still well above most estimates of the economy’s long-run ‘potential’ growth rate at a time when the economy is probably already bumping up against capacity limits — and with tax cuts likely to provide at least a modest further lift going forward. The economy looks clearly strong enough to absorb further rate hikes from the Fed. With inflation still tracking below the central bank’s 2% objective, though, the pace of tightening is expected to remain gradual. We don’t expect a rate hike at next week’s FOMC meeting but do expect the Fed will eventually raise the fed funds range by 100 basis points over the course of 2018.

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	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17
Consumer Spending	2.9	1.9	3.3	2.2	3.8
Durables	9.2	-0.1	7.6	8.6	14.2
Non-Durables	2.5	1.1	4.2	2.3	5.2
Services	2.1	2.5	2.3	1.1	1.8
Business Fixed Investment	1.7	8.1	3.2	2.4	7.9
Residential	7.1	11.1	-7.3	-4.7	11.7
Non-residential Structures	-2.2	14.8	7.0	-7.0	1.4
Equipment and Software	1.8	4.4	8.8	10.8	11.4
Government Spending	0.2	-0.6	-0.2	0.7	2.9
Inventory Change (\$ bn)	63.1	1.2	5.5	38.5	9.2
Final domestic demand	2.3	2.4	2.7	1.9	4.3
Exports of Goods and Services	-3.8	7.3	3.5	2.1	6.9
Imports of Goods and Services	8.1	4.3	1.5	-0.7	13.9
<b>Real GDP</b>	<b>1.8</b>	<b>1.2</b>	<b>3.1</b>	<b>3.2</b>	<b>2.6</b>

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