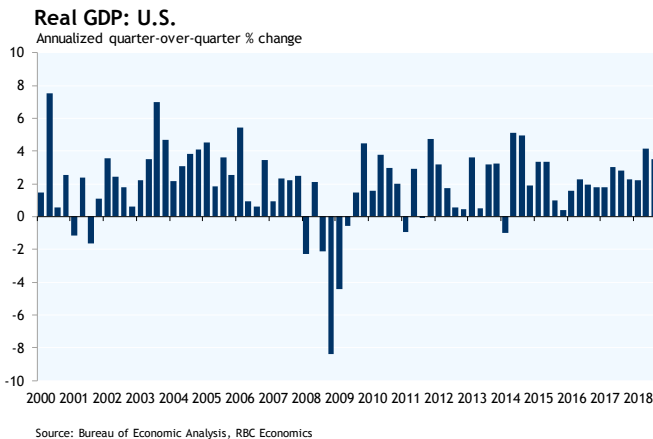




U.S. NATIONAL GDP ACCOUNTS

October 26, 2018



U.S. Q3 GDP Growth Stronger than Expected

- **US Q3 GDP growth rose 3.5% which was down from the 4.2% gain in Q2 though stronger than the 3.3% expected going into the report.**
- **Final domestic demand rose 3.1% with inventories adding an additional 2.1 ppts. while net exports subtracted 1.8 ppts. as imports surged 9.1%.**
- **The annual increase in the core PCE deflator rose to 2.0% from 1.9% in Q2.**

Our Take:

The U.S. Q3 GDP report implied continued solid above-potential growth of 3.5% with a slight upward surprise relative to market expectations. Growth in final domestic demand of 3.1% was generally in line with expectations though with the composition indicating greater strength in consumer spending being offset by greater weakness in both residential and business investment. The inventory change adding 2.1 percentage points while net exports subtracted a greater-than-expected 1.8 percentage points. The greater drag from the latter largely reflected a sizeable 9.1% jump in imports. The imposition of the U.S. tariffs on \$200B of Chinese imports effective September 24 likely contributed to businesses advancing delivery of these imports, potentially for sale over the Christmas sales period, and placed in inventories until the seasonal demand emerges. The fourth quarter will likely see a drawdown of these inventories though the negative impact on GDP growth will be largely tempered by softer imports (which enters into the GDP calculation with a negative sign.) The solid above-potential growth reported in today's GDP report is pushing the U.S. economy even further beyond capacity. This excess demand is starting to send inflation measures higher with today's report indicating the annual rate of increase in the core PCE measure rising to 2.0% from the Q2 reading of 1.9% and 1.5% a year ago. Continued strong growth in conjunction with inflation measures moving higher are expected to keep the Fed tightening policy. Our forecast assumes another 25 basis point hike before the end of this year and similar-sized hikes every quarter through the end of next year. This results in the upper end of the Fed's target range rising to 3.50% by the end of 2019 from a current 2.25%.



	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18
Consumer Spending	2.2	3.9	0.5	3.8	4.0
Durables	7.8	12.6	-2.0	8.6	6.9
Non-Durables	2.3	4.0	0.1	4.0	5.2
Services	1.4	2.6	1.0	3.0	3.2
Business Fixed Investment	2.6	6.2	8.0	6.4	-0.3
Residential	-0.5	11.2	-3.4	-1.4	-4.0
Non-residential Structures	-5.8	1.3	13.9	14.5	-7.9
Equipment and Software	9.8	9.9	8.5	4.6	0.4
Government Spending	-1.0	2.4	1.5	2.5	3.3
Inventory Change (\$ bn)	64.4	16.1	30.3	-36.8	76.3
Final domestic demand	1.7	4.0	1.9	4.0	3.1
Exports of Goods and Services	3.5	6.6	3.6	9.3	-3.5
Imports of Goods and Services	2.8	11.8	3.0	-0.6	9.1
Real GDP	2.8	2.3	2.2	4.2	3.5

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