

## US growth: Battling against headwinds

US 3Q GDP growth came in a little ahead of market expectations at 1.9%, but with business surveys signalling further weakness in 4Q19 and 1Q20, the Fed is unlikely to be finished easing policy after today's meeting

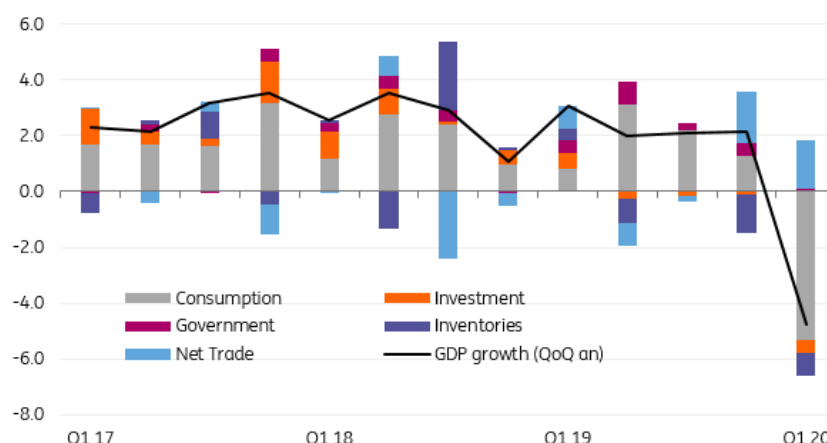


### GDP growth beats expectations

3Q19 GDP growth came in at 1.9%, better than the consensus of 1.6% largely thanks to the robust consumer spending (up 2.9%) and very firm residential investment numbers, up 5.1%. In fact, this is the first rise in residential investment since 4Q17.

Government spending also held up well, rising 2%, while net trade was less of a drag than feared – subtracting just 0.08 percentage points from headline growth. Inventories also did little to headline growth, subtracting just 0.05 percentage points. The area of weakness was once again business investment with non-residential investment falling 3% after a 1% decline in 2Q19.

## Contributions to QoQ annualised GDP growth



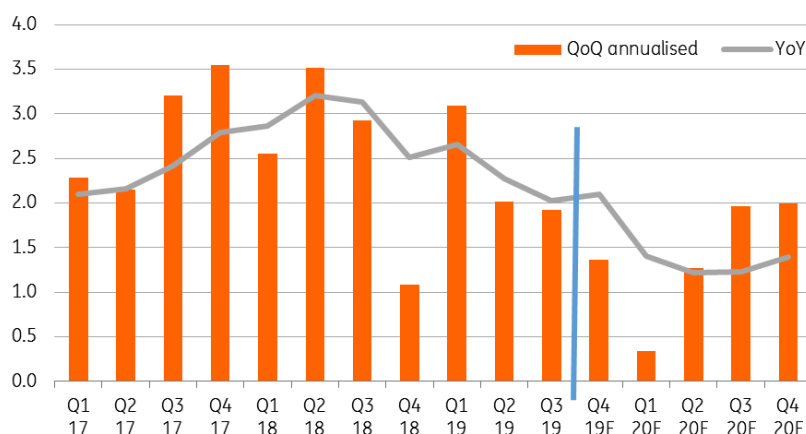
Source: Bloomberg, ING

## Steeper slowdown ahead

The current US expansion is the longest in history and while we see it continuing through 2020, the risks of at least one-quarter of negative growth are rising. Weak global growth and the headwinds from lingering trade tensions coupled with a strong dollar have clearly depressed activity in the manufacturing sector.

Unfortunately, there is growing evidence that the slowdown is spreading to the consumer and service sectors given the recent ISM non-manufacturing surveys and retail sales numbers.

## US GDP growth with ING forecasts



Source: Macrobond, ING

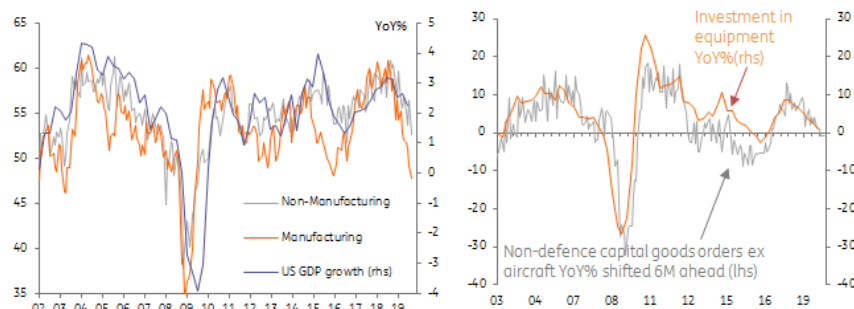
## No let up from the Fed

We expect 4Q GDP to be even weaker than 3Q's given the slowdown in employment and wage growth is likely to lead to a deceleration in consumer spending growth while durable goods orders suggest investment spending is likely to contract for a third consecutive quarter in 4Q19.

With net exports unlikely to fill the gap we are currently forecasting 4Q GDP growth of 1.4%. 1Q20

could be even worse with the ISM surveys suggesting little reason for a turnaround in growth over the next six months. Given this backdrop we doubt the Fed will pause for long after cutting interest rates again later today. We continue to look for a December rate cut with a further move likely in 1Q20.

## Business surveys signal a sharper slowdown ahead



Source: Macrobond, ING

### Author

**James Knightley**

Chief International Economist

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.