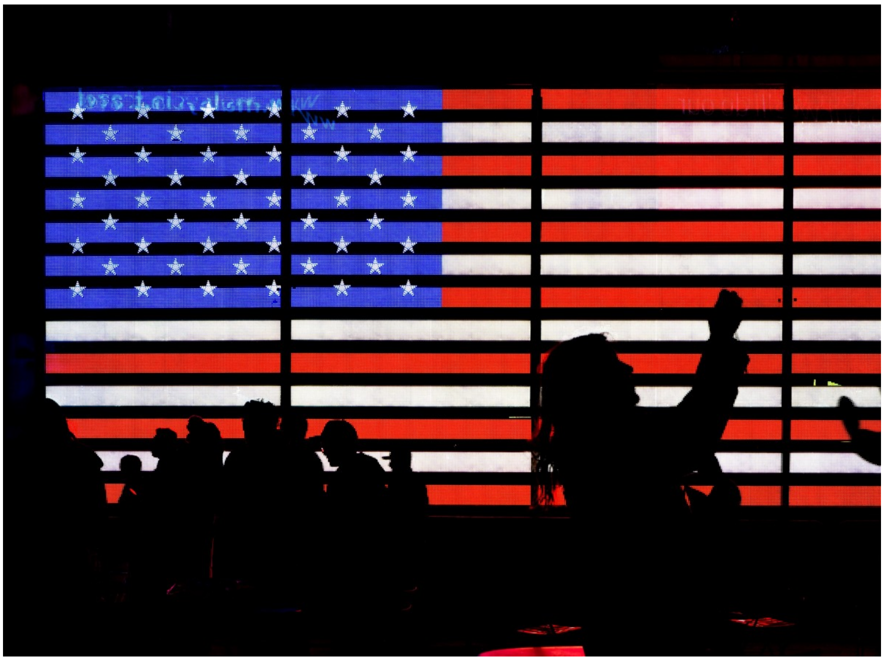
US growth: Battling against headwinds

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

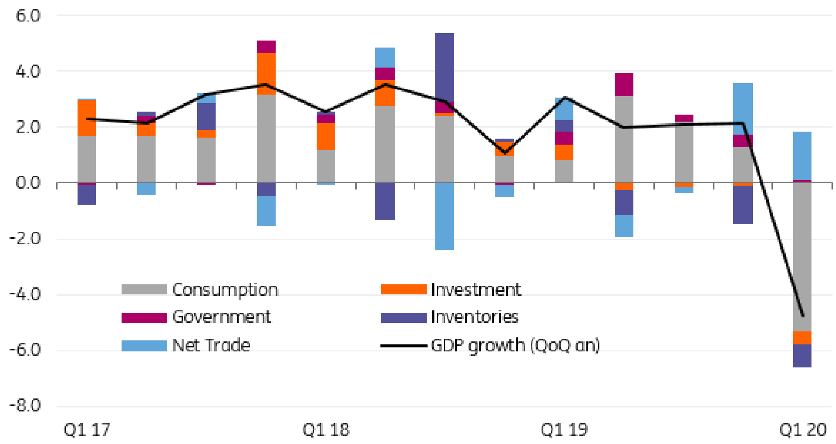


GDP growth beats expectations

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



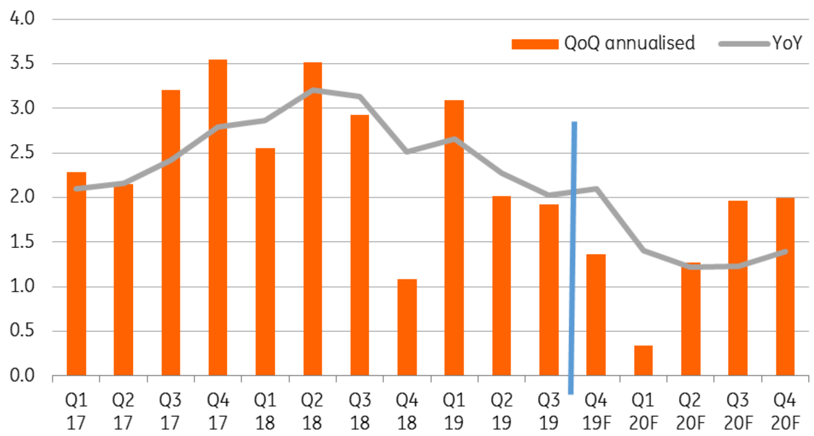
Source: Bloomberg, ING

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



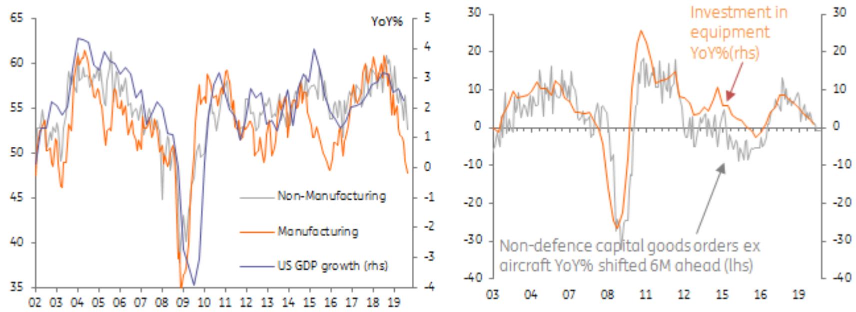
Source: Macrobond, ING

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, US
james.knightley@ing.com