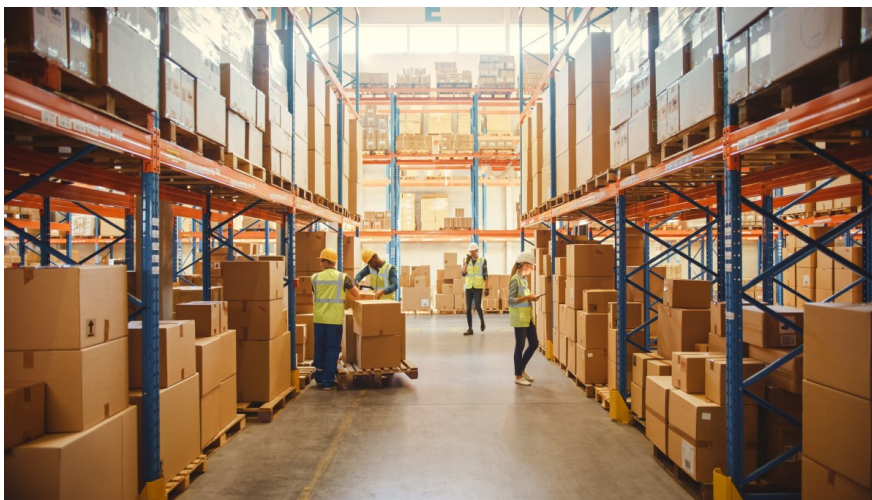


US growth – but not for the best reasons

Both the fourth quarter US GDP report and the December durable goods numbers are strong at the headline level, but look a little closer and evidence of a deteriorating growth story is plain to see



US fourth quarter GDP exceeded expectations largely on inventory building

2.9% US annualised GDP growth in 4Q 2022

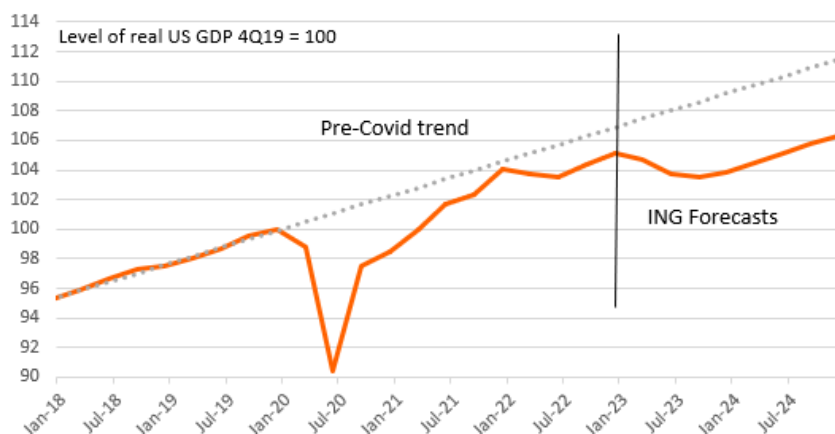
GDP growth outperforms thanks to inventory building and falling imports

The fourth quarter US GDP report shows that the economy expanded at 2.9% on an annualised rate in the final three months of last year, a touch above the 2.6% consensus forecast. This follows on from the 3.2% rate experienced in the third quarter and, on the face of it, indicates an economy that is performing strongly. With inflation well above target this fully justifies ongoing interest rate increases from the Federal Reserve. However, if we dig a little deeper into the details we see it isn't as positive as the headline alone suggests.

Consumer spending grew 2.1%, which was below the 2.9% rate expected, with it likely that much of this spending increase was concentrated at the beginning of the quarter given consecutive 1%+ month-on-month falls in retail sales in November and December. Meanwhile non-residential fixed

investment – basically business capex – grew just 0.7% and residential investment fell at an annualised 26.7% rate.

Level of US GDP versus pre-Covid trend



Source: Macrobond, ING

Instead, the strength came from inventory building, which added 1.46 percentage points to headline growth with net exports adding a further 0.56pp with government spending growing 3.7% annualised. Our concern is that the inventory building is increasingly involuntary rather than planned – consumer demand is softening at a time when improved supply chains have boosted the stock of products available. Likewise, the improvement in net trade is down to imports falling (a sign of a weakening US demand outlook) rather than exports rising – exports fell 1.3%. So, to sum up, we have good growth but not for great reasons.

Durable goods boosted by Boeing

Likewise, the December durable goods report was very firm, jumping 5.6% MoM. We always thought the consensus was far too low at 2.5% given Boeing received 250 aircraft orders (including 200 737 MAX and 787 orders from United Airlines), up from 21 in November. Strip this out and ex-transport orders fell 0.1% MoM. The non-defense capital goods order ex-aircraft, which the Federal Reserve follows given its decent lead quality for business capex, fell 0.2% MoM. So again, the details paint a very different picture to what looking at the headline alone would suggest – remember too it isn't as if Boeing can suddenly magically make all these planes this year.

Rounding out the data, we have initial jobless claims coming in at new lows of 186k versus the 205k market expectation. Very good news for now, helped by favourable seasonal adjustment factors, but with more and more companies announcing lay-offs this will soon start to rise.

First quarter growth not looking as robust

Looking to first quarter GDP data, the momentum in the numbers isn't looking great. We've had six consecutive MoM falls in residential construction, three consecutive drops in industrial production, the big falls in retail sales in November and December already mentioned and now we find both the manufacturing and non-manufacturing ISM indices are in contraction territory. We need to see a turn quickly in something to prevent first quarter GDP turning negative. But the Conference

Board's measure of CEO confidence is now at the lowest level since the Global Financial Crisis, which suggests that the risk is corporate America will turn increasingly defensive, implying a greater focus on costs rather than motivation to expand businesses.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

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