

## US: Not to be underestimated

Many commentators scoffed when President Trump predicted he would get 3% growth in the US. Not anymore. Having already posted 3% annualised growth in 2Q and 3Q 2017, today's 4Q figure should be just as good



Source: iStockphoto

### 3% yet again...

We have already seen the economy grow an annualised 3.1% in 2Q17 and 3.2% in 3Q 2017 and we expect to see another 3% growth figure in today's 4Q17 GDP report. This would mark the first time the US has experienced three consecutive quarters of 3% growth since 2004/05, underlining how well the US economy is performing right now. The consensus forecast is also 3% with the range of predictions starting at 2.2% and rising to 3.8% among the 74 respondents to the Bloomberg survey.

We suspect that the balance of risks to our own 3% forecast lies to the upside given the historical relationship with the key ISM business survey. It is also important to point out that the Federal Reserve Bank of Atlanta has what they term a GDPNow forecasting model. Based on the latest data it suggests GDP will come in at 3.4% with real consumer spending growth of 4%. We agree that consumer spending is likely to be the main growth driver, but we are a little more cautious here, predicting growth of just above 3% with investment and inventory building also contributing

positively to growth.

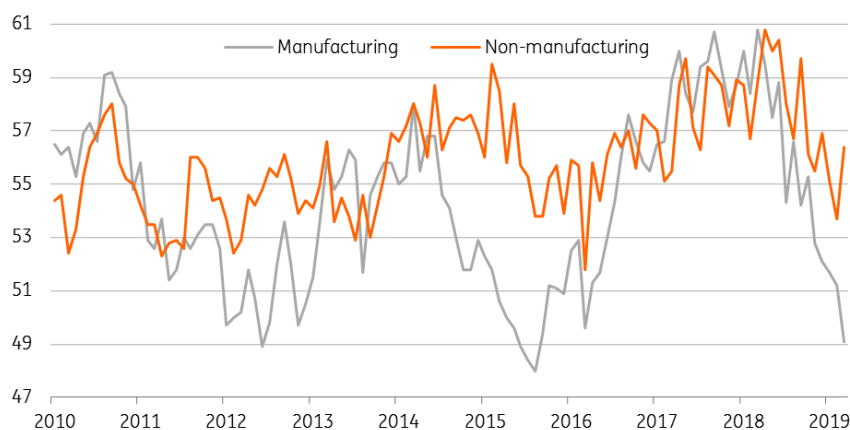
# 13 Years since the US last recorded three consecutive quarters of 3% growth

## ...and for 2018 as a whole

We think that this fantastic run can continue through 2018 given the great shape the economy is currently in. Domestic demand is powering ahead with housing numbers, retail sales, the state of the jobs market and business surveys all suggesting that momentum is very strong. Trump has also got his tax cuts through so there is going to be more cash in the pockets of businesses and consumers, which will add to the upside potential for investment and consumer spending.

The external economic environment is also very positive. Forecasts for economic activity in Europe and Asia continue to rise, while the dollar's 10% trade-weighted decline over the past 12 months means that the US is in a competitive position to take advantage.

## ISM points to upside risk for GDP



## Three Fed hikes but it could become four

This strong growth picture will add to rising price pressures in the US economy and we see the potential for US inflation to hit 3% in the summer. Consequently, we expect to see a minimum of three Federal Reserve interest rate hikes this year, but are currently forecasting a pause in Q1. This reflects the changeover in the Fed committee happening in February with Jerome Powell taking over from Janet Yellen as Fed Chair. We are also a little nervous that the heavy winter storms at the start of the year will impact some of the activity numbers while core inflation is likely to remain below 2% until April. Once again, the balance of risks to our forecast probably lies to the upside and if the data doesn't soften we will need to insert a further Fed rate rise for the March FOMC meeting.

## Author

**James Knightley**

Chief International Economist, US

[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>.