

## US: Proving the doubters wrong

The US economy slowed by less than feared in 4Q18 with investment picking up some of the slack. With the government shutdown over and a better backdrop regarding financial markets and trade, we suspect activity in 1Q19 can perform well, too



Source: iStockphoto

### Battling against the headwinds

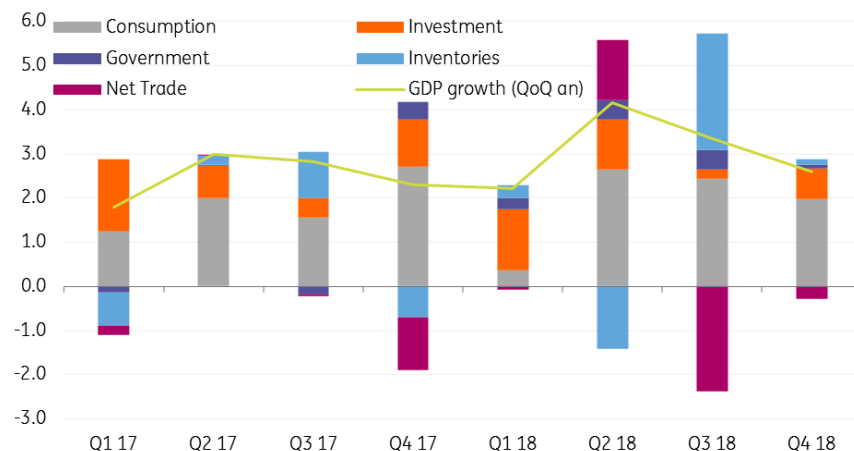
4Q18 US GDP growth has come in above expectations at 2.6% annualised – better than the 2.2% consensus and the 1.9% figure indicated by the Atlanta Federal Reserve NOWCAST model based on officially reported data. The details show a partial slowdown in consumer spending growth (2.8% versus 3.5% in 3Q18), but it continues to make a strong contribution. In fact, given the equity market turmoil at the time and the poor official retail sales figure for December, this isn't a bad outcome at all.

Non-residential investment spending actually posted a decent performance, recording growth of 6.2% despite the concerns about what escalating trade tensions could mean in terms of supply chains and corporate profitability. However, net trade was a drag (-0.22 percentage points) in part for the same reason, as businesses looked to import supplies ahead of anticipated tariff hikes in January. Those additional tariffs were pulled in December as the US announced a temporary truce with China on trade, which has subsequently been extended by President Trump.

Rounding out the numbers, residential investment was poor at -3.5% - the fourth consecutive quarterly contraction – while government spending grew by just 0.4% and inventories added just

0.13 percentage points to headline growth.

## US GDP growth and contributing components



Source: Macrobond, ING

## Favourable fundamentals

In terms of the outlook for the first quarter, things look to be in decent shape despite the disruption from the government shutdown. Employment growth is strong and wages are accelerating, which should support consumer spending. Equity markets have rebounded sharply, recovering the October-December losses, while gasoline prices remain subdued, helping to boost household real disposable incomes. The trade truce is also a positive development, but obviously a concrete deal in the coming months that would lead to a clear de-escalation of US-China tensions would be ideal. Imports may reverse after the surge in 2H18, but inventories are also likely to be run down for the same reason.

At this early stage we suspect something in the 2-2.5% range for 1Q GDP growth looks possible. With a strong jobs market creating more significant wage pressures we continue to believe the next move in the Fed funds rate is more likely to be up rather than down as the market is currently pricing (summer 2021 25bp rate cut currently priced by futures contracts). While the Federal Reserve will be patient, we think the combination of decent growth, low unemployment and gradually rising inflation pressures will lead to a re-evaluation over the summer with a rate hike likely in 3Q.

### 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 [www.ing.com](http://www.ing.com).