

## 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

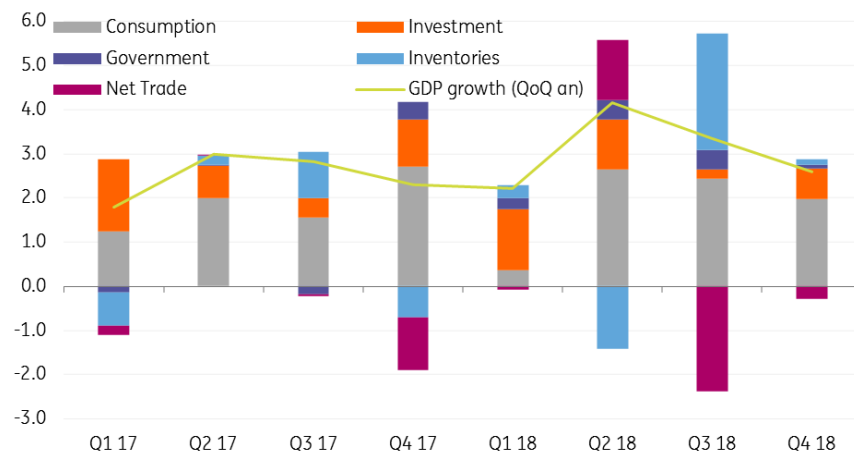
4Q18 US GDP growth has come in above expectations at 2.6% annualised – better than the 2.2% consensus and the 1.9% figure indicated by the Atlanta Federal Reserve NOWCAST model based on officially reported data. The details show a partial slowdown in consumer spending growth (2.8% versus 3.5% in 3Q18), 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.

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