

## Decent US growth suggests Fed rate cut unlikely

Markets are pricing in at least one rate cut over the next year, but with the economy continuing to perform solidly, we think it is much more likely that the Federal Reserve keeps rates on hold for the foreseeable future



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Despite the mountain of headwinds clouding the US outlook at the start of the year, the economy put in a decent performance in the first quarter. The quarterly pace of growth accelerated to 3.2% annualised, up from 2.2% in the fourth quarter of 2018. The overall growth mix was fairly broad-based, although a few key trends stand out.

Firstly, consumer spending slowed to around half the pace of growth recorded in 4Q18. That may be partially related to the government shutdown, but equally the boost from last year's tax cuts is beginning to fade. That said, there are good reasons to expect consumer spending to perform solidly over coming months. The jobs market is strong, and with skill shortages emerging in different parts of the economy, wage growth has been accelerating.

3.2% US 1Q growth  
(QoQ annualised)

Higher than expected

Unsurprisingly, trade made a strong contribution to the overall growth number. At the end of last year, firms appeared to bring forward imports to the fourth quarter to get ahead of the anticipated increase in tariffs. While that deadline was later postponed by President Trump, there was still a corresponding fall in imports during the first quarter, helping to lift overall GDP growth by 0.6 percentage points.

To the extent that these excess imports were simply stockpiled at the end of 2018, you might have expected inventories to correspondingly decline in the first quarter, as these stocks were unwound. In the end though, the inventory component – which is typically very volatile and can be affected several different factors – actually increased, inflating the growth number by 0.7ppts.

The bottom line is that there are some growth-positive factors at play here that are unlikely to persist into the second quarter. Having said that though, we continue to expect a solid performance from the US economy this year, particularly if we get some more encouraging news from the US-China trade talks. While we don't expect the Fed to hike rates again this year, we think it looks pretty unlikely that rate cuts are on the horizon at this stage.

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