US 2.6% GDP disappoints, but will rebound

Strong momentum, tax cuts and dollar softness are clear positives for the US economy in 2018

Source: Shutterstock

Trade disappoints while consumption jumps

US 4Q GDP has come in at 2.6%, a little below the 3% figure expected by the market, but this masks some real strength in the report. Consumer spending was up 3.8% while fixed investment was up 7.9% and government spending jumped 3%. However trade was the surprise weak spot, subtracting 1.1% from headline growth after a surge in imports. This will recover and we doubt it will unleash a new wave of protectionist action from President Trump, who is sounding a little more conciliatory in Davos. Inventories were also heavily run down, which subtracted a further 0.7% from GDP growth. This too will recover given very strong order books as highlighted by very good durable goods orders and bodes well for ongoing job creation.

What it means for the Fed

We continue to forecast 3% full-year growth for 2018. Strong domestic momentum will be boosted somewhat by tax cuts, while dollar softness puts the US in a great position to benefit from the global upturn in demand. We also see the growing potential for inflation to hit 3% in the summer as high energy prices, the unwinding of distortions relating to cell phone data plans, rising medical and housing costs and the potential for wage rises add to price pressures. Consequently, our current forecast of three Fed funds rate rises this year may be too conservative.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com