31 Oct 2019

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US 3Q19 GDP

Widening divergence between consumer strength and business weakness

Amid multiple headwinds in 3Q19, US GDP growth slowed slightly to 1.9% from 2.0% in 2Q19, mainly fueled by strong personal consumption expenditures, government spending and residential fixed investment, which offset the drag of business investment and inventories. Better-than-expected 3Q19 GDP data showed US economy was growing steadily, albeit at a slower pace, assuaging concerns of a more pervasive slowdown. Trade uncertainties continued to take its toll on manufacturers while consumption helped the economy to expand more than forecast, which has confirmed a widening divergence that poses downside risks to the outlook.

- **US GDP growth marginally slowed in 3Q19 by expanding at consensus-topping 1.9%.** Growth rate for US real GDP decelerated to annualized 1.9% (first estimate) as against 2Q19's final reading of 2.0%, beating our estimate of 1.7% and the market consensus of 1.6%. Declining business investment weighed heavily on GDP growth, shaving as much as 0.4ppt off growth. Solid personal consumption and government spending contributed 1.93ppt and 0.35ppt to 3Q19 real GDP growth respectively, preventing US economy from further losing ground.

- **Consumer is king when it comes to US economic activity.** Given that US economy is heavily dependent on private consumption which accounted for 68% of US GDP as of 2Q19, an increase of private consumption expenditure (PCE) by 2.9% in 3Q19 was a good sign for the economy as a whole of maintaining solid, although the growth pace slowed sharply from 2Q19's record-high of 4.6%. Specifically, spending on durable goods, the key driving force of PCE, surged by 7.6%, dropping back from 2Q19's 13%. Expenditure on non-durable goods climbed 4.4% (previous 6.5%) and spending on services also grew at a solid rate of 1.7% (previous 2.8%). We reiterate our view that US consumer sector still stays in a good place and will continue to be the growth stalwart in coming two to three quarters.

- **Rebound of housebuilding expenditure was another bright spot.** Residential investment rebounded significantly by 5.1% at annualized QoQ rate in 3Q19 after contracting for six straight quarters, contributing 0.18ppt to GDP growth. As we analyzed in previous report, US housing market is highly sensitive to mortgage rates, therefore we continue to expect US housing market to be supported by historically low mortgage rates.

- **US economy was unable to immune from the impact of trade war and global slowdown.** US economic expansion, now the longest in its modern history, has been affected in 3Q19 by many negative factors including trade war, global synchronized slowdown, fading effects of fiscal stimulus, General Motors strike and grounding of Boeing's 737 Max jets. **Business investment fell by 3% in 3Q19**, the most in four years, weighing on the pace of economic expansion by 0.4ppt, because many company owners and managers were hesitating about business investment and major plans in 3Q19 due to the persisting trade uncertainties. **Net export was a slight drag on expansion in 3Q19** as imports (grew 1.2%) outpaced exports (0.7%), subtracting 0.08ppt from GDP growth. **Change in inventories also trimmed GDP slightly** by 0.05ppt, given that demand for US-made products shrank due to weakening global economy, strong dollar and higher tariffs.

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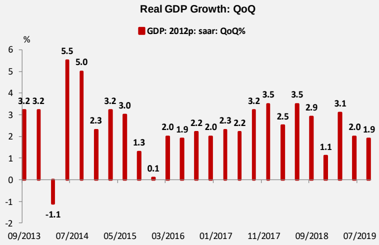
US real GDP annualized growth



Source: US Bureau of Economic Analysis, CMBIS

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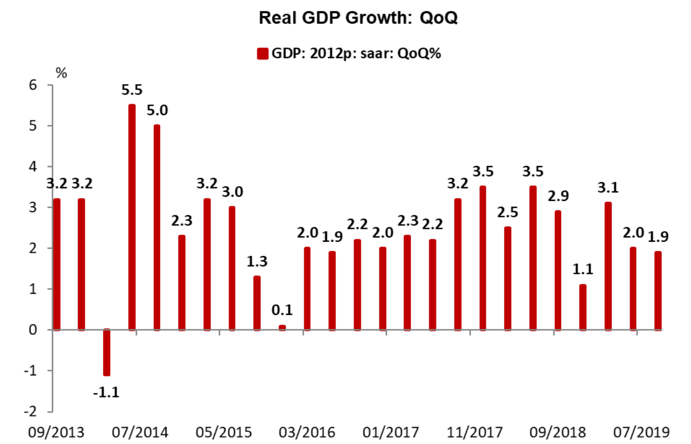
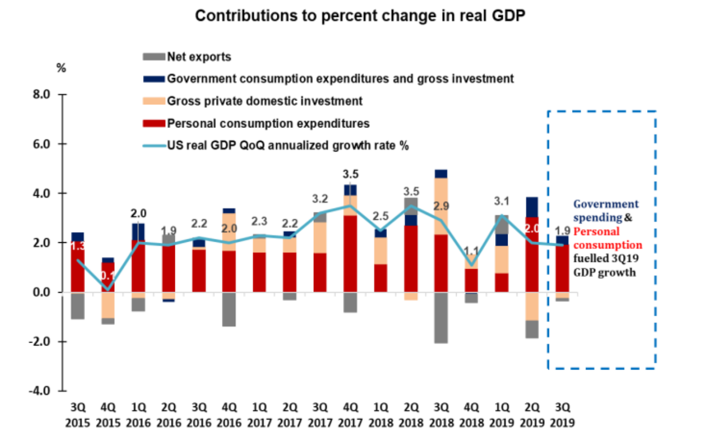
- **3Q19 GDP data confirmed that a continued slowdown in US economy is inevitable, but market should not underestimate its resilience.** Trade uncertainties and lower demand will continue to drag US business investment, and consumer spending will be more infected by weakness in manufacturing. “Strong consumer, weak business” will be the theme for a while. We expect the US economic slowdown to persist into 4Q19 and 1H20 and the growth cycle will come to an end next year. However, the odds of recession starting over the next year have been reduced as strong consumer fundamentals will help to sustain the expansion. We expect that economic growth around 2.3% is achievable in 2019 before it slows down to about 1.8% next year if trade war does not escalate. There are two notable uncertainties, namely trade policies toward China and the policy support from US central bank and federal government.
- **Resilient growth momentum vs. Fed’s third rate cut:** 3Q19 GDP data has few implications on Fed’s Oct move because the 25bp rate cut was mainly a precautionary step. On the other hand, solid economic growth provides little justification for Fed’s further aggressive easing policies after three interest rate cuts since this summer, so we expect a policy pause. In the short-term, US stocks may stay high with the supports from supportive financial conditions and resilient growth momentum. Tentative trade truce between US and China is also positive to market sentiment.

Figure 1: US real GDP growth slowed slightly to 1.9% in 3Q19 from 2% in 2Q19



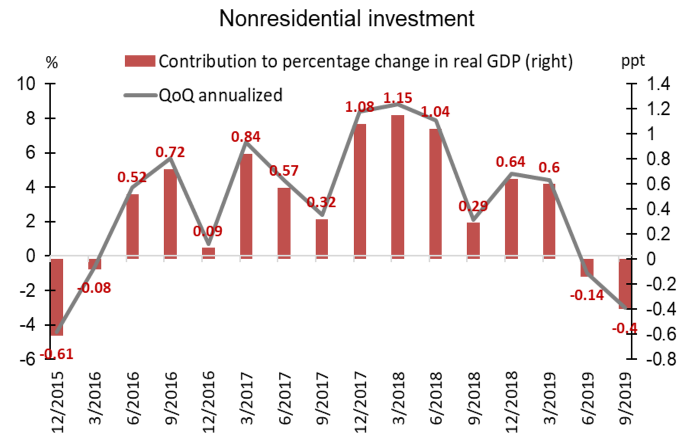
Source: US BEA, CMBIS

Figure 2: Personal consumption and government spending fuelled US 3Q19 GDP growth



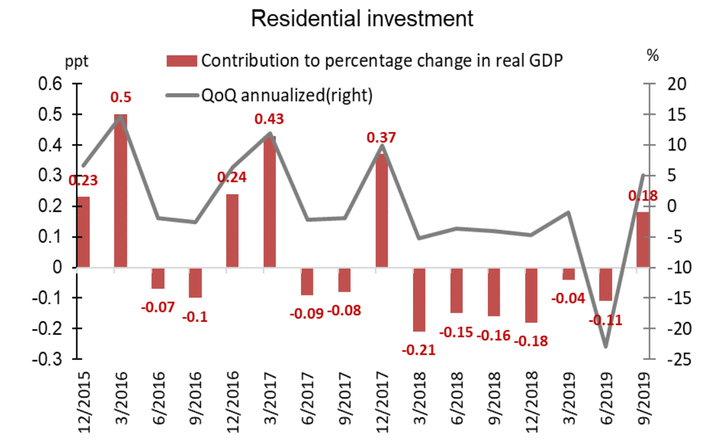
Source: US BEA, CMBIS

Figure 3: Business investment trimmed US GDP growth by 0.4ppt in 3Q19



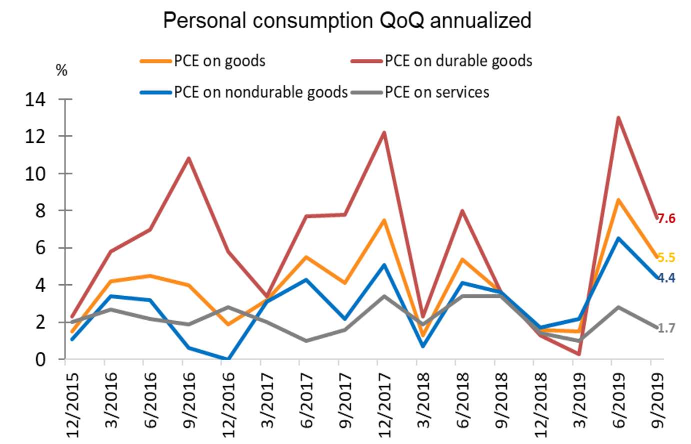
Source: US BEA, CMBIS

Figure 4: Housebuilding expenditure rebounded after six consecutive quarters of contraction



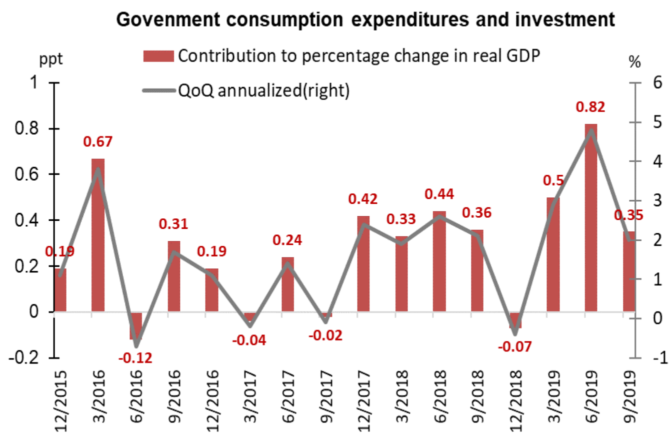
Source: US BEA, CMBIS

Figure 5: US personal consumption growth decelerated in 3Q19 but still ran at a solid pace



Source: US BEA, CMBIS

Figure 6: Government spending continued to support GDP growth in 3Q19



Source: US BEA, CMBIS

Figure 7: US consumer sentiment and confidence fluctuated but stayed at relatively high levels

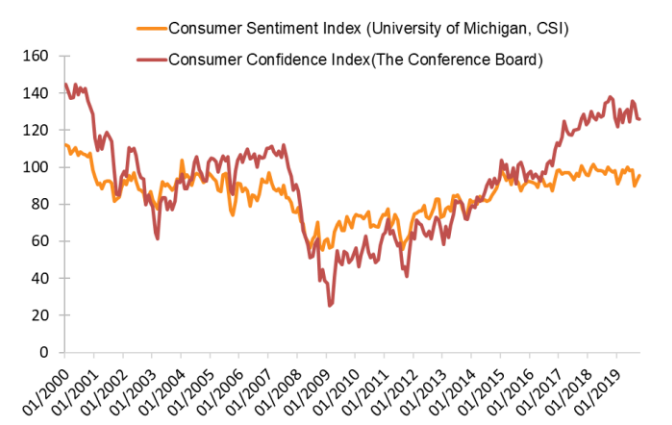


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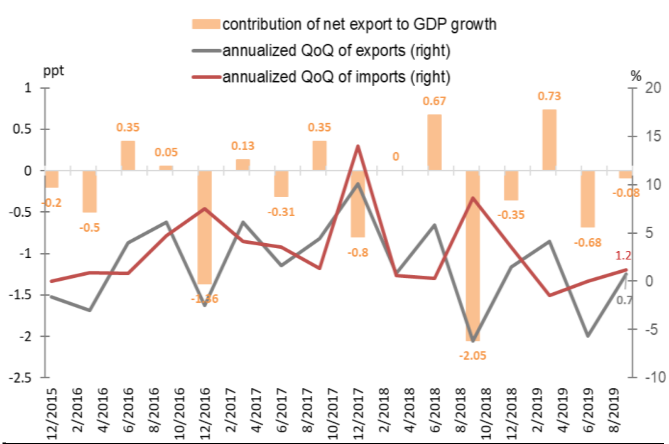
Figure 8: US net export was a slight drag on US economic expansion in 3Q19



Source: US BEA, CMBIS

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