

## Comment on US 2Q19 GDP growth

### Trade disputes take toll while consumption remains solid

**SUMMARY.** As US economic expansion has become the longest in modern history, its growth rate decelerated to 2.1% annualized in 2Q19, largely fueled by the strong personal consumption and government spending which offset the drag of exports, inventory and fixed investment. Although US economy is growing steadily, Fed likely will still cut rates 25bp on 31 Jul.

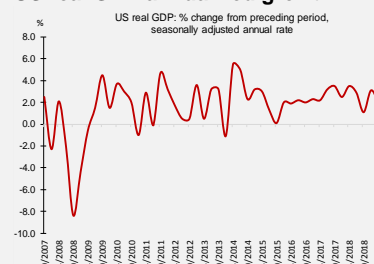
- **US economy expanded at consensus-topping 2.1% in 2Q19.** Growth rate for US economy decelerated to annualized 2.1% (first estimate) as against 1Q19's final reading of 3.1%, but beat consensus estimate of 1.8% and Atlanta Fed's latest estimate of 1.3%. Solid personal consumption and unexpected strength of government spending delivered US economy from further deceleration, while inventory, exports and fixed investment provided the expected drag on GDP. Growth averaged 2.6% annualized in 1H19, well above Congressional Budget Office's 2.1% estimate of potential.
- **US domestic demand was much stronger than the headline suggests.** As the biggest part of the economy, personal consumption accounted for 68.0% of US GDP and PCE growth has printed at 4.3% in 2Q19, definitely a positive surprise. Particularly, spending on durable goods surged by nearly 13%, the strongest growth rate in five years. Expenditure on non-durable goods climbed 6.0% and spending on services also grew at a solid rate of 2.5%. 2Q19 data show that US consumer sector still stays in a good place and will continue to be the growth stalwart in coming quarters. After the partial government shutdown in 4Q18 and 1Q19, government spending rebounded significantly and offered the biggest boost in a decade, but it is expected to slow down in 2H19. Overall, final domestic demand was up 3.5% in 2Q19, after a soft 1.8% in 1Q19.
- **Global slowdown and trade uncertainties are causing the softness on export and investment sides.** Net exports and private domestic investment in sum subtracted 1.65ppt from the overall growth in 2Q19. Real exports drop 5.2%, reflecting slower growth in other regions of the world as well as the trade war impacts.
- **Forecast:** As US economic expansion has become the longest in modern history, it is cooling as fiscal stimulus fade and global economy decelerates. 2018 GDP growth has also revised down from 3% to 2.5%, missing Trump's goal. That said, the prolonged expansion cycle is likely to continue and growth around 2% is achievable in 3Q19 if trade war does not escalate.
- **Solid data argue against aggressive rate cuts.** We believe 2Q19 GDP data has few implications on Fed's July moves because a possible 25bp rate cut is mainly a precautionary step, or could be seen as a reversal of Dec 2018 hike, in our view. Meanwhile, solid economic growth provides little justification for aggressive easing policies. Fed seems more concerned about trade and geopolitical uncertainties instead of the solid economy, so it is likely to cut already low rates by up to 50bp in 2H19, running risks of fueling asset bubbles as well. US stocks may stay high in the near term with support from Fed expectation while economic data continue to be strong. As too many rate cuts have been priced in, market should be cautious of correction risk if Fed will not be much dovish as expected.

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#### US real GDP annualized growth



Source: US Bureau of Economic Analysis, CMBIS

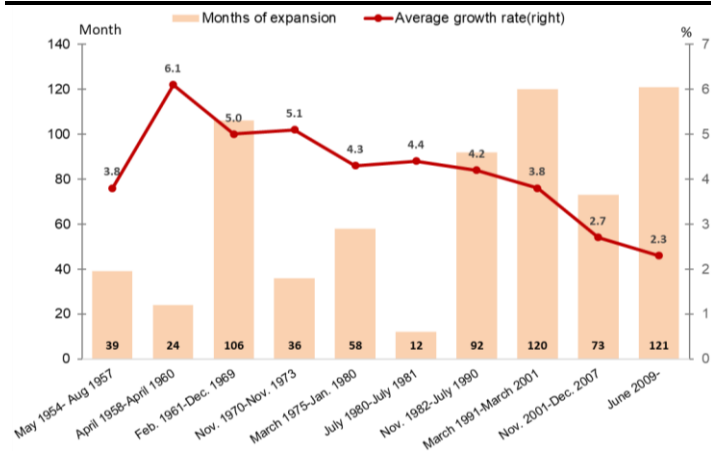
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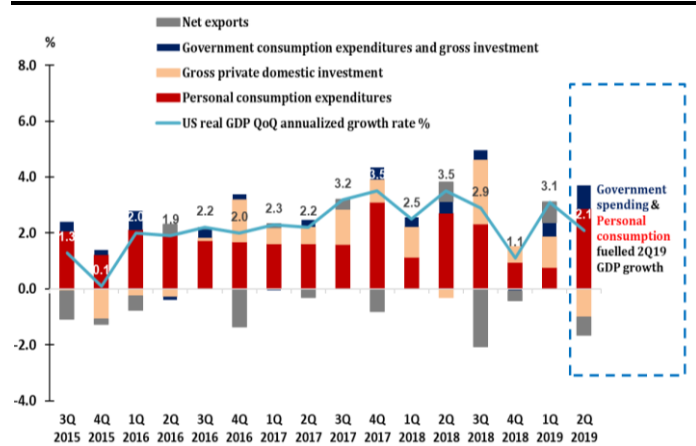
## US Economy: Focus Charts

**Figure 1: The longest and weakest economic expansion in US history**



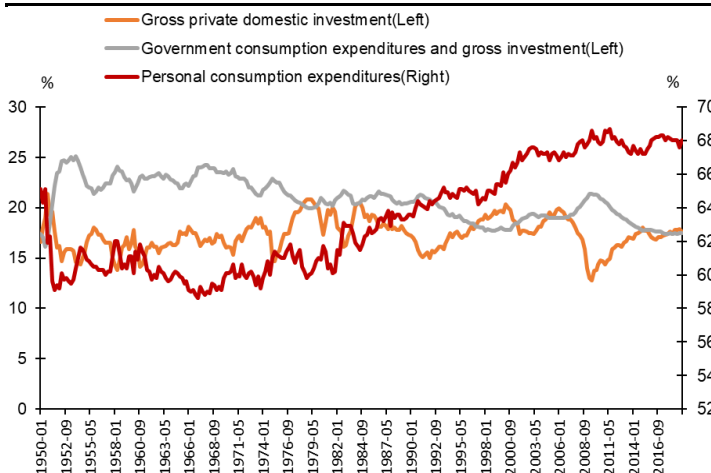
Source: NBER, CMBIS

**Figure 2: Contributions to US annualized GDP growth (%)**



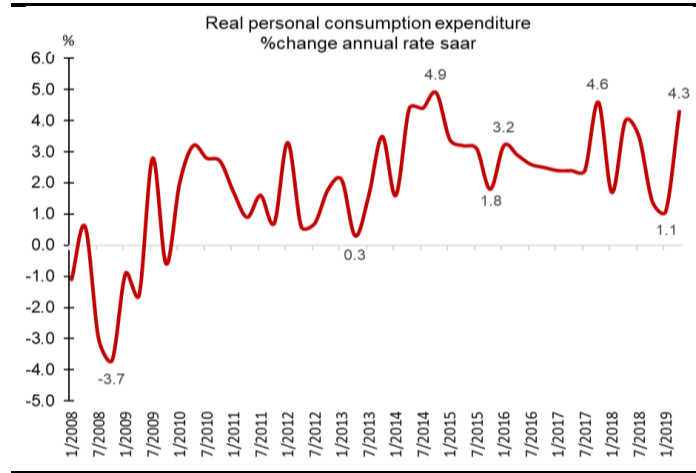
Source: US BEA, CMBIS

**Figure 3: Personal consumption accounted for 68% of US GDP as of 2Q19**



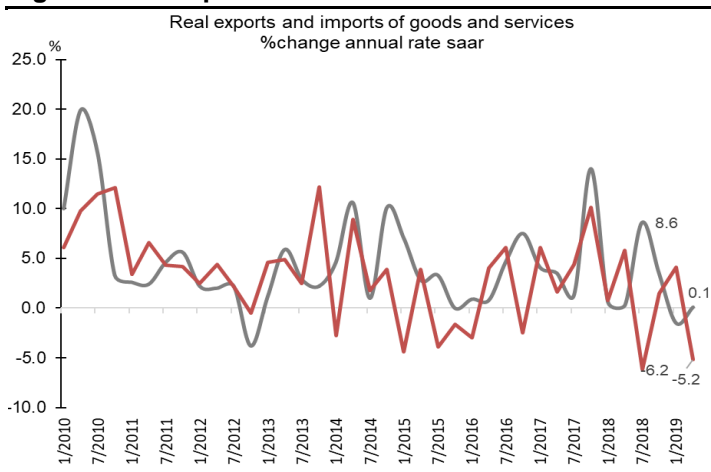
Source: FRED, CMBIS

**Figure 4: US personal consumption surged 4.3% in 2Q19**



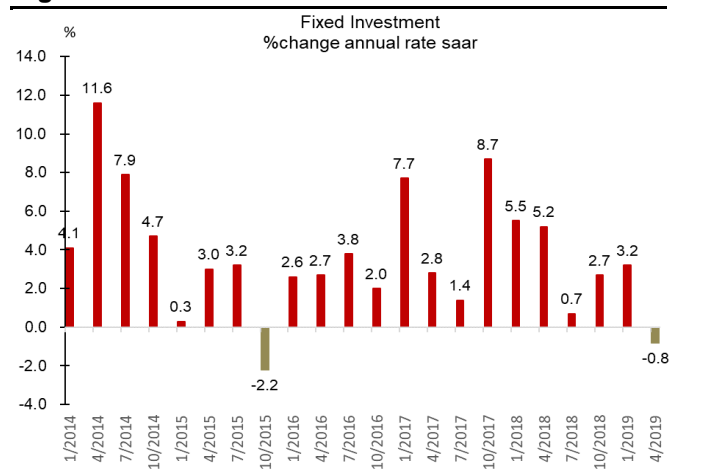
Source: FRED, CMBIS

**Figure 5: US exports weakened in 2Q19**



Source: FRED, CMBIS

**Figure 6: US business investment declined in 2Q19**



Source: FRED, CMBIS

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