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Flash Note: 30/01/2020

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US GDP expands at 2.1% rate in 4Q. A brief reading

GDP Data came above expectations

- The U.S. economy grew at a 2.1% rate in the fourth quarter (slightly better than the 2% economists expected).
- Weaker consumer spending and business investment was offset by better external figures (as a smaller trade deficit).
  - ✓ Consumer spending rose 1.8% in the last quarter (short of the 2% rate economists projected). Although consumer confidence remains elevated, Americans showed more caution amid trade tensions during 4Q and moderating income growth.
  - ✓ Business investment, meanwhile, marked its third straight quarterly contraction as businesses were facing a bad outlook given trade issues, elevated policy uncertainty and a strong dollar. We expect that after the signing of Phase 1, and as indicated by the improvement in some business surveys (Empire Manufacturin and Philly Fed), the investment will begin to contribute positively to GDP in the coming quarters.
  - ✓ Net trade was positive for the GDP as it provided a boost of 1.5 percentage points.

Market's Reading:

- Today's GDP final figure, is considered as "somewhat weak", has spurred the idea among investors that the Federal Reserve's next move is more likely to be an interest-rate cut than an increase.

Fed's next move?

- The Fed considered yesterday that "the current stance of monetary policy is appropriate to support sustained expansion of economic activity and inflation returning to near the Committee's symmetric 2 percent objective."
- The Fed's favorite measure of inflation is the personal consumption expenditure index, which rose a paltry 1.3% qoq in the 4Q (economists expected a 1.6% rise), which considerably reduces the possibility of medium-term rate hikes.
- We have no reason to think that the Fed must go to the rescue of the economy through rate cuts. This possibility does not enter, for the moment, in our base scenario. But what we know is that we are in a position to rule out rate hikes in the 1H20.