



www.corpny.com

Flash Macro Update (07/26/2019)

Probably most important data of the month was released today. Ahead of the FED's FOMC meeting, everybody was waiting for the 2Q19 GDP growth data in the US. The data was slightly better than expected but did not provide any new information about the state of economic activity. It was a clear confirmation that US economy continued to grow at a decelerated rate without facing a serious inflationary threat.

According to the data, US economy grew by 2.1% in the second quarter of 2019 compared to expectations of 1.8% after growing by 3.1% in the first quarter of the year. Please recall that US economy grew by 2.9% overall in 2018 with the help of tax cuts. Now the impact of tax cuts is wearing off and on top of that trade tension between US and China started to affect business.

When we look at the details of the data, we observe mixed signals though. In other words, not all components contributed positively to the second quarter GDP growth in 1Q19. For instance, personal consumption expenditures soared by more than 4% in the second quarter, which contributed significantly to the growth, whereas business investments contracted by almost 1% in 2Q19 exhibiting the impact of trade wars. Net exports also contributed negatively, as exports shrank by around 5% in the second quarter against flattish imports. It is worth highlighting that the 2Q19 data will be revised in the coming period. In other words, it is not the final data yet.

We need to emphasize one more item, which was important in 1Q19 and seems to be important in the second quarter as well. That item was the inventory build-up in 1Q19 which was relatively sizeable. We observe that same trend continued at a decelerating pace in the 2Q19 as well meaning that there was some front-loaded growth in the second quarter that could affect third quarter too.

Again, most interesting part of the data was the US PCE and core PCI price indices that tell us whether growth was inflationary or not. In 2Q19, US core PCE recorded a y-o-y increase of 1.8% in 2Q19 compared to expectations of 2.0% and compared to 1.1% in 1Q19. The price reading indicated that US economy continued to grow at a decelerating pace without creating inflation despite trade talks, China related concerns, Brexit fears, etc. On the FED front, we think that the second quarter GDP data should not be a serious game changer. Probably FED will deliver a 25-bps rate cut next week but will stay put after that for some time.

Ozgur ALTUG
Chief Economist
CONY Global Macro Strategy