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CONY Flash Macro Note **February 28, 2019**

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Flash Macro Update (02/28/2019)

Another delayed and long-awaited important data was the last quarter GDP growth data in the US, which was released today. According to the data, US economy grew by 2.6% in the fourth quarter of 2018 compared to expectations of 2.3% bringing the full-year 2018 GDP growth to 2.9%. Please note that GDP growth in 2017 was 2.2%. Although the fourth quarter data beat expectation, the down trend in GDP growth is visible. In the second quarter of 2018 annualized GDP growth was 4.2% that slowed down to 3.4% in the third quarter and finally to 2.6% in the last quarter of the year.

When we look at the details of the data, we clearly observe that personal consumption expenditures, durable goods, business investment and intellectual property contributed positively to overall GDP in the fourth quarter, whereas net exports made a negative contribution in 4Q18 and overall in 2018. It is worth highlighting that the 4Q18 data will be revised in the coming period. In other words, it is not the final data yet.

The fourth quarter GDP data overall confirmed that US economy continued to grow at the decelerating pace. While it is probably early to talk about the recession, it is clear to us that economic growth in the US started to normalize, as the impact of tax cuts wears off. High frequency data including durable goods orders, factory orders and housing-related data suggest that further slowdown is likely in the coming quarters. At this stage, the slowdown will be perceived as a mean reversion by market participants, in our view.

We expect to get a clearer picture about the state of US economic activity in the coming months, as there were many distorting factors in the previous months such as government shutdown, adverse weather conditions and ongoing trade wars. On the FED front, we think that the fourth quarter GDP data should not be a game changer. FED already employed a ‘wait and see’ approach in its monetary policy while maintaining its balance sheet contraction speed. Although they are not fully correlated, if US economy slows down further to below 2%, FED might also stop its balance sheet contraction operation as well.

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