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Flash Macro Update (01/30/2020)

After the FED's FOMC meeting yesterday, at which the Bank did not touch anything or did not give any clear guidance about the future path of monetary policy, all eyes were turned today to the 4Q19 GDP data. The data was completely in line with expectations and 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 fourth quarter of 2019 compared to expectations of 2.1% after growing by another 2.1% in the third quarter of the year. For the full year, US economy grew by 2.3% in 2019. Please recall that US economy grew by 2.9% overall in 2018 with the help of tax cuts. Although it looks like a sizeable slowdown in growth rate in 2019, we think that it is pretty normal as the economy was boosted by tax cuts in 2018.

When we look at the details of the data, we see a similar picture in 4Q compared to the third quarter of the year. In other words, not all components contributed positively to the fourth quarter GDP growth, as it was the case in the third quarter as well. For instance, personal consumption expenditures grew by around 2% in the fourth quarter, which contributed positively to the growth, whereas business investments contracted by almost 2% in 4Q19 exhibiting the impact of trade wars. Exports contributed positively, as they grew by around 1.5% in the fourth quarter, whereas imports contracted sharply by 8% due to trade wars and lower investments. It is worth highlighting that the 4Q19 data will be revised in the coming period. In other words, it is not the final data yet.

Again, one of most interesting parts of the data was the US PCE & core PCE price indices that tell us whether growth was inflationary or not. In 4Q19, US core PCE recorded a y-o-y increase of 1.3% in 4Q19 compared to 2.1% in 3Q19. In annualized terms, core PCE increase was 1.6%. 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 fourth quarter GDP data should not be a serious game changer. FED will stay put in the short-term.

Ozgur ALTUG
Chief Economist
CONY Global Macro Strategy