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CONY Flash Macro Note	October 30, 2019

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Flash Macro Update (10/30/2019)

Ahead of the FED's FOMC meeting, everybody was waiting for the 3Q19 GDP growth data in the US. The data was 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 1.9% in the third quarter of 2019 compared to expectations of 1.6% after growing by 3% in the first quarter of the year and 2% in the second quarter of the year. Please recall that US economy grew by 2.9% overall in 2018 with the help of tax cuts.

When we look at the details of the data, we see a similar picture in 3Q compared to 2Q with some minor differences. In other words, not all components contributed positively to the third quarter GDP growth, as it was the case in the second quarter as well. For instance, personal consumption expenditures remained strong growing by around 3% in the third quarter, which contributed significantly to the growth, whereas business investments contracted by almost 4% in 3Q19 exhibiting the impact of trade wars. But exports this time contributed positively, as they grew by around 1% in the third quarter which was not the case in the second quarter. It is worth highlighting that the 3Q19 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 1H19 and seems to be important in the 3Q19 as well. That item was the inventory build-up. Inventories rose massively in 1Q19 and to a lower extent in 2Q19. We observe that same trend continued in the 3Q19 meaning that inventories grew in the third quarter as well, which increases the possibility of a sharp slowdown in production at some point.

Again, most interesting part of the data was the US PCE & core PCI price indices that tell us whether growth was inflationary or not. In 3Q19, US core PCE recorded a y-o-y increase of 1.7% in 3Q19 compared to 1.6% in 2Q19. In addition, m-o-m figures pointed to a very slow pick up as well. 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 third quarter GDP data should not be a serious game changer. FED might deliver a 25-bps rate cut today but will rule out further cuts in the short-term.

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