US 2016 Q3 GDP

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National Australia Bank

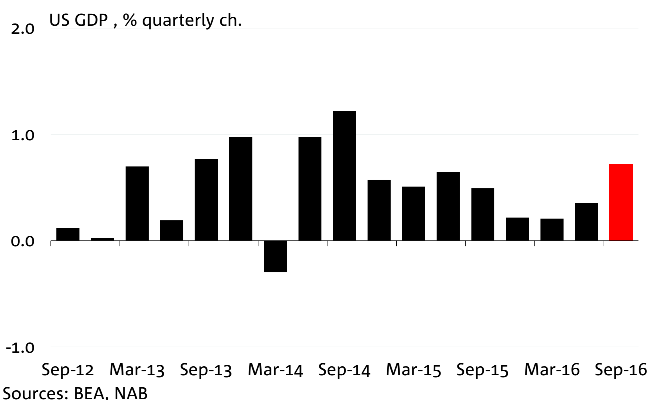
NAB Group Economics

US GDP growth accelerated in the September quarter to its fastest pace in two years. However, the details were not as positive. Overall, the September quarter GDP outcome suggests that the US economy remains solid, with GDP growing at a moderate pace.

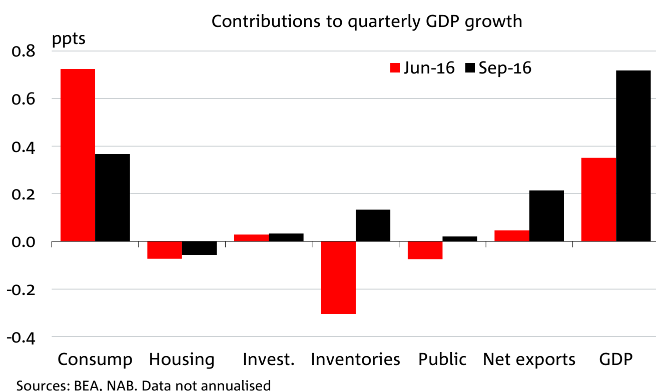
GDP growth strengthens In Q3

US GDP growth accelerated in the September quarter to 0.7% qoq (or 2.9% on an annualised basis), its fastest pace in two years.

GDP growth strongest in two years



But details not as good

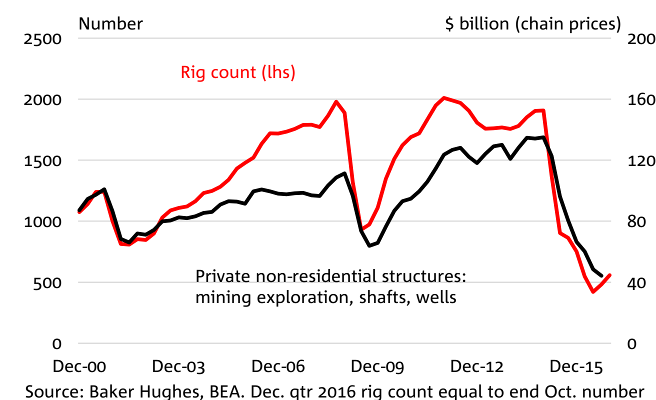


However, the underlying details were not as positive. A couple of what are likely to be temporary factors were important drivers of the better result – a turnaround in inventory accumulation and a strong net export contribution with the latter driven by a surge in food (soybean) exports. In contrast, business investment remains subdued, while housing investment again declined and consumption growth slowed down to a more moderate pace.

While consumption growth was only half the June quarter pace it was still solid. Growth was strongest for durable goods (particularly autos) which are normally sensitive to changes in economic conditions. In contrast non-durable goods consumption fell following a very strong June quarter, including a decline in gasoline consumption probably reflecting the rise in gasoline prices.

Business fixed investment grew by 0.3% qoq which was similar to the previous quarter's growth. Non-residential structures turned around to record its strongest growth in over two years. This was despite a continuing drag from declining mining related investment. The National Accounts mining exploration, shafts, wells investment category tends to follow the oil and gas rig count, but with a lag. With the number of rigs now starting to move higher, this drag on business investment appears to be largely over. The weakness in investment has been broader than just mining, but excluding mining structures investment, business investment growth has turned positive in the last two quarters.

Mining still a drag in Q3, but worst is over



Residential investment declined for the second consecutive quarter, and is now only just a little higher than it was a year ago. Declines occurred in

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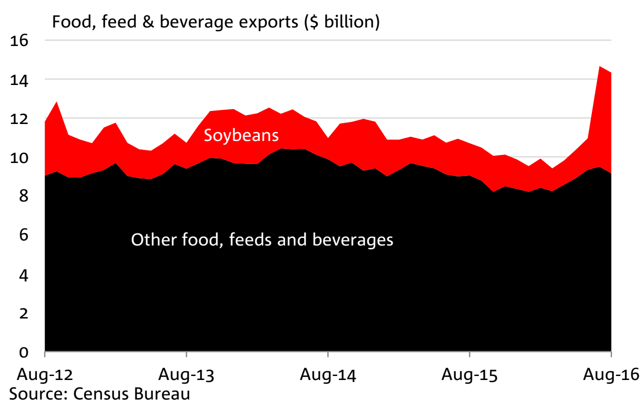
both the new construction and 'other structures' categories.

The contribution to GPP growth from inventory accumulation ended a run of five straight quarters where inventories detracted from growth. That said, the increase in inventories in the quarter was not particularly strong.

Net exports (exports less imports) made its strongest contribution to quarterly GDP growth since late 2013. This was despite a strengthening in import growth and reflected a surge in exports. Exports grew by 2.4% qoq but almost three–quarters of this came from the foods, feeds and beverages category. The rise in food exports is largely due to a spike in soybean exports (with reports attributing this to a strong US crop and poor crops overseas). Even so, excluding foods, feeds and beverages, exports strengthened, growing by 0.7% qoq after falling by 1.1% over the year to the June quarter.

A soybean led export boom



Source: Census Bureau

On the inflation front, annual headline personal consumption expenditure (PCE) inflation was unchanged at 1.0% yoy. However, core PCE inflation (ex food and energy), ticked up to 1.7% yoy from 1.6%, its fastest rate of growth since the September quarter 2014.

Assessment

The acceleration in GDP growth, even if supported by some likely temporary elements, is welcome after three quarters of sub-par GDP growth. The previous sub-par growth in part reflected a long-running inventory correction which now appears to have come to an end.

A key support to the economy in recent times has been consumption, consistent with rapid employment growth and the boost to household budgets from gasoline price falls and US dollar appreciation. With the latter two of these influences fading or even reversing, we have been expecting consumption growth to moderate, and the Q3 outcome was consistent with this view. However, consumption growth should still remain solid due to an improving labour market, solid consumer confidence and support from strong household balance sheets.

For similar reasons, the drag on business investment – from low oil prices (on the mining sector) and high dollar (on manufacturing sector competitiveness in particular) is fading. While mining related investment again fell in the September quarter, it was by the smallest amount since late 2014 and other indicators suggest mining investment has bottomed out. It is also possible that business investment has suffered from election uncertainty.

The impact of past US dollar appreciation on exporters also appears to be fading (even putting aside the boost from soybean exports). However, while we don't see a repeat of the strong US dollar appreciation between mid-2014 to early 2016, we expect the US dollar to trend higher and this, combined with a lacklustre global economy, will continue to put pressure on net exports.

While investment in residential housing has hit a rough patch, the fundamentals are still favourable. Vacancy rates and interest rates are low, and new home sales are growing strongly. The continued gains in the US labour market should also encourage more people to start their own household.

The outlook for fiscal policy is clouded by the election; but with fixing the US government's high debt levels not a focus of political discussion, federal fiscal policy is unlikely to be making the economy grow slower.

Overall, the September quarter GDP outcome suggests that the US economy continues to grow at a moderate rate. With productivity growth subdued, this is enough to generate solid employment growth.

As a result, we have not changed our annual forecasts and we expect GDP to grow by 1.5% in 2016, followed by 2.1% in 2017.

The stronger than expected GDP result probably reinforces the likelihood, at the margin, that the Fed will tighten policy in December. The Fed is signalling that if the economy stays on track that it is likely to increase the federal funds rate target at least once this year. This is based on the assumption that Mrs Clinton wins the Presidential election in line with recent polling; a win by Mr Trump could cause an increase in financial market volatility which would lead the Fed to keep rates on hold in December.

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U.S. ECONOMIC & FINANCIAL FORECASTS

	Year Average Chng %					Quarterly Chng %							
						2016				2017			
	2014	2015	2016	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
US GDP and Components													
Household consumption	2.9	3.2	2.5	2.2	1.9	0.4	1.1	0.5	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
Private fixed investment	5.5	4.0	0.6	2.6	3.1	-0.2	-0.3	-0.2	**0.7**	**0.9**	**0.9**	**0.8**	**0.8**
Government spending	-0.9	1.8	0.8	1.0	1.5	0.4	-0.4	0.1	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**
Inventories*	-0.1	0.2	-0.4	0.1	0.0	-0.1	-0.3	0.1	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net exports*	-0.1	-0.7	0.0	0.0	-0.1	0.0	0.0	0.2	**0.0**	**-0.1**	**0.0**	**0.0**	**0.0**
Real GDP	**2.4**	**2.6**	**1.5**	**2.1**	**1.9**	**0.2**	**0.4**	**0.7**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
Note: GDP (annualised rate)						*0.8*	*1.4*	*2.9*	*2.0*	*2.1*	*2.2*	*2.0*	*1.9*
US Other Key Indicators (end of period)													
PCE deflator-headline	Change on year earlier %												
Headline	1.2	0.4	1.4	1.9	2.1	0.1	0.5	0.4	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
Core	1.6	1.4	1.8	1.9	2.1	0.5	0.4	0.4	**0.5**	**0.4**	**0.5**	**0.5**	**0.5**
Unemployment rate - qtly average (%)	5.7	5.0	4.9	4.5	4.5	4.9	4.9	4.9	**4.9**	**4.8**	**4.7**	**4.6**	**4.5**
US Key Interest Rates (end of period)													
Fed funds rate (top of target range)	0.25	0.50	0.75	1.25	2.00	0.50	0.50	0.50	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**
10-year bond rate	2.17	2.27	1.75	2.25	2.25	1.77	1.47	1.60	**1.75**	**1.75**	**2.00**	**2.00**	**2.25**

Source: NAB Group Economics

*Contribution to real GDP

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