

US 2016 Q4 GDP 30 JANUARY 2017



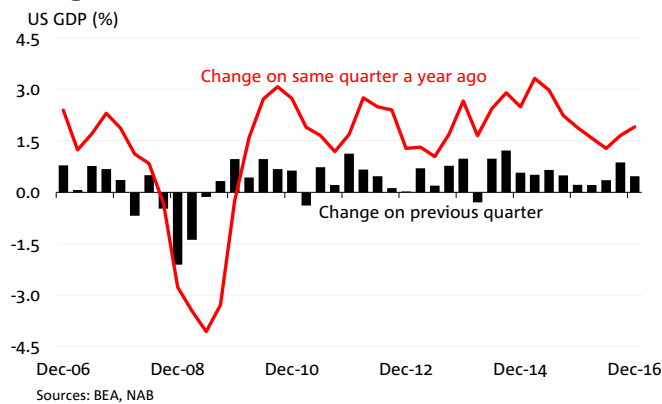
NAB Group Economics

The US recorded moderate GDP growth in 2016 Q4, including further signs of improvement in business investment, while consumption growth remained solid. Trade was a major headwind in the quarter, although this was in part due to a reversal of the previous quarter's spike in food exports.

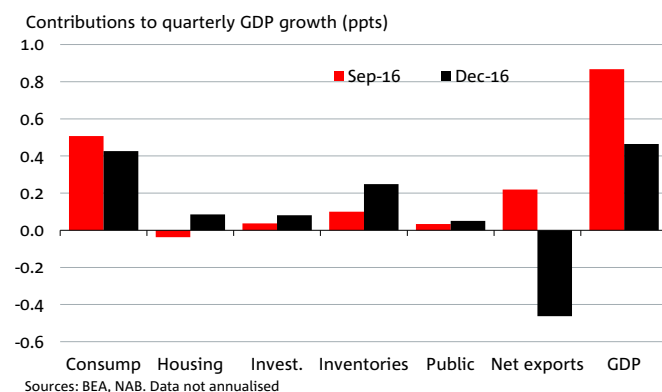
A return to moderate growth in Q4

US GDP growth slowed in the December quarter to 0.5% qoq (or 1.9% on an annualised basis). This was well down on the previous quarter (0.9% qoq), but equal to the average growth experienced over 2016.

GDP growth moderates in Q4...



...in part due to reversal of Q3 export spike

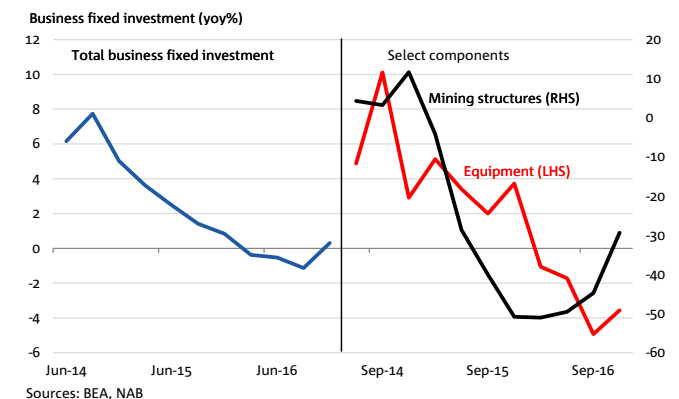


The underlying details were reasonable, with a couple of short-term factors affecting growth working in opposite directions. Consumption growth

slowed but was still solid, residential investment resumed growing again and business investment showed some further improvement. Temporary drags on growth came from a fall in power consumption and, more importantly, the reversal of last quarter's spike in food exports. However, inventory accumulation – which is not a sustainable source of growth - was a positive in the quarter.

Consumption growth slowed for the second quarter in a row, to a still solid 0.6% qoq. A slowdown was expected as the boost to households from the large fall in gasoline prices faded and then partially reversed. That said, the slowdown in growth from Q3 is accounted for by a fall in the 'housing and utilities' component – large moves in this typically reflect unseasonal weather conditions and their impact on power consumption. The number of 'heating days' in Q4 was below average so the underlying trend is stronger than the headline figure suggests.

Business investment turning around



In contrast, business fixed investment growth strengthened over the last three quarters, growing by 0.6% qoq in Q4, although it is only up 0.3% on the same quarter a year ago. Equipment investment grew

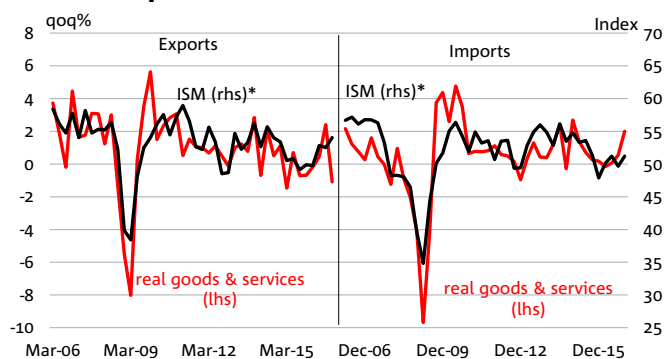
for the first time in over a year and mining structures grew for the first time in two years. The latter is consistent with the upwards trend in the oil and gas rig count, which has continued into 2017. Other non-residential structure investment declined, but this followed very strong growth in Q3.

Business also accelerated their pace of inventory accumulation, which recorded its strongest growth for the year. Nevertheless, the pace was still a bit below the average of recent years.

After falling for two consecutive quarters, residential investment resumed growing in Q4. Both 'permanent site' (new construction) and 'other structures' (mainly selling expenses and renovations) increased.

Net exports (exports less imports) made a strong contribution to growth in Q3, but this was more than reversed in Q4. The fall in exports (-1.1% qoq) was entirely accounted for by a decline in the foods, feeds and beverages category as the recent surge in soybean exports unwound. Outside of this category, exports grew although at only a subdued rate. At the same time, imports grew by their fastest rate in two years (2.0% qoq). The ISM surveys suggest, however, that the underlying net export trend is not as weak as the Q4 data indicate.

ISM more upbeat on net trade than Q4 accounts



Source: BEA, ISM, NAB.

* Average of ISM manufacturing/non-manufacturing surveys using goods/services shares.

On the inflation front, annual headline personal consumption expenditure (PCE) inflation increased from 1.0% yoy to 1.5% yoy, its highest level since September quarter 2014. This largely reflected rising energy costs as core PCE inflation (which excludes food and energy) was unchanged at 1.7% yoy.

Assessment

The advance estimate of 2016 Q4 growth was only a little below expectations, and the composition of growth provided no great surprises. With growth in the quarter equalling the average for the first three quarters of the year, it does not change the underlying story around the economy. Even this moderate level of growth was enough to see a further decline in the unemployment rate and some lift in core inflation over the course of 2016.

We expect growth to face some headwinds in coming quarters but to strengthen later in the year and into the next, assuming the President delivers a fiscal stimulus to the economy. For 2017 we are forecasting GDP growth of 2.1%, before moving higher in 2018 to 2.3%. With the US close to full employment, the benefits of any stimulus will be limited.

Current headwinds include the recent appreciation of the US dollar (which we think has a bit further to go), increases in interest rates (including for mortgages), and, to a lesser extent, the recently announced short-term freeze on federal government hiring.

Rising oil prices are another headwind as the US is still a net importer of energy, although they are expected to remain well below their mid-2014 levels. Recent increases in oil prices are likely already weighing on household consumption. However, some businesses will clearly benefit from higher oil prices – in particular the energy sector but also manufacturers and other businesses that provide inputs into the sector, as was apparent in the 2016 Q4 improvement in business investment.

Improved consumer and business sentiment since the election, as well as the rise in the stock market and its associated wealth impacts, will, however, cushion the impact on growth from these factors. Measures of future manufacturing capital expenditure intentions have improved markedly recently.

As noted above, our forecasts assume that there will be a fiscal stimulus this year. We have factored in a stimulus of around 1% of GDP starting in the second half of 2017, but there is still considerable uncertainty about the timing and magnitude. This is not just over the size of future tax cuts and infrastructure spending, but to what extent the President and Congress undertake other measures to offset their impact on the budget.

We have not included any allowance for the US imposing additional trade barriers or changes that will significantly reduce net immigration; these remain as downside risks.

We are currently projecting that there will be two rate increases in 2017 and three in 2018. The risk around this projection, however, is that the Fed will be more aggressive. With the unemployment rate already below the Fed's longer term level, it is possible that the Fed will react quickly to any fiscal stimulus once it announced as it is concerned about getting behind the curve.

CONTACT THE AUTHOR

Tony Kelly
Senior Economist – International
Antony.kelly@nab.com.au
+613 9208 5049

U.S. ECONOMIC & FINANCIAL FORECASTS

	Year Average Chng %				Quarterly Chng %									
	2015	2016	2017	2018	2016		2017			2018				
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
US GDP and Components														
Household consumption	3.2	2.7	2.6	2.5	0.7	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.5
Private fixed investment	4.0	0.7	2.9	3.4	0.0	1.0	0.9	0.8	0.9	0.8	0.9	0.8	0.8	0.8
Government spending	1.8	0.9	1.0	2.0	0.2	0.3	0.3	0.3	0.4	0.5	0.5	0.6	0.6	0.6
Inventories*	0.2	-0.4	0.2	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports*	-0.7	-0.1	-0.5	-0.3	0.2	-0.5	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Real GDP	2.6	1.6	2.1	2.3	0.9	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
<i>Note: GDP (annualised rate)</i>					3.5	1.9	2.0	1.8	1.9	2.2	2.4	2.5	2.4	2.2
US Other Key Indicators (end of period)														
PCE deflator-headline														
Headline	0.4	1.5	2.0	2.2	0.4	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.5
Core	1.4	1.7	1.9	2.1	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Unemployment rate - qtlly average (%)	5.0	4.7	4.4	4.1	4.9	4.7	4.6	4.5	4.5	4.4	4.4	4.3	4.2	4.1
US Key Interest Rates (end of period)														
Fed funds rate (top of target range)	0.50	0.75	1.25	2.00	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25
10-year bond rate	2.27	2.45	2.50	2.75	1.60	2.45	2.40	2.50	2.50	2.50	2.50	2.75	2.75	2.75

Source: NAB Group Economics

*Contribution to real GDP

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 3) 9208 8129

Vyanne Lai
Economist – Australia
+(61 3) 8634 0198

Phin Ziebell
Economist – Australia
+61 (0) 475 940 662

Amy Li
Economist – Australia
+(61 3) 8634 1563

Behavioural & Industry Economics

Dean Pearson
Head of Behavioural & Industry Economics
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural & Industry Economics
+(613) 9208 2929

International Economics

Tom Taylor
Head of Economics, International
+(61 3) 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia

Economics
Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy
Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril
Currency Strategist
+61 2 9293 7109

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Alex Stanley
Senior Interest Rate Strategist
+61 2 9237 8154

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Andrew Jones
Credit Analyst
+61 3 8641 0978

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Jason Wong
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Derek Allassani
Research Production Manager
+44 207 710 1532

Asia

Christy Tan
Head of Markets
Strategy/Research, Asia
+852 2822 5350

Julian Wee
Senior Markets Strategist, Asia
+65 6632 8055

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.