# US Economy Posts Stable Growth

- **Q4 GDP growth roughly met expectations**
- **The details were decent**
- **Lower imports and inventory decumulation may be constructive…**
- **...given the brewing inventory excesses in the US economy**
- **The consumer is still driving about half of US economic growth**
- **Core PCE inflation continues to run well below target**
- **Trump is a slightly worse than average President on cumulative growth**

**2019Q4 GDP growth, q/q % change SAAR:**
Actual: 2.1
Scotia: 1.9
Consensus: 2.0
Prior: 2.1

The US economy grew roughly as expected in the final quarter of 2019. The details behind the 2.1% headline were broadly constructive. The quarterly core PCE deflator reinforced expectations for tomorrow's December reading.

As chart 1 depicts, GDP growth has been remarkably stable over the past three quarters and slightly above potential such that the US economy continues to push further into excess aggregate demand. Nevertheless, inflation is still not responding as the Phillips curve is flatter than historically.

Chart 2 shows what drove GDP growth in Q4 on a weighted contribution to growth basis. Inventories dragged 1.1 points off of headline GDP growth and imports added 1.3 points. The two effects largely cancel out one another, leaving behind other decent drivers, and the import/inventory turn is somewhat connected. The US has been building an inventory imbalance and so to see less of a pull effect on imports and less inventory stockpiling is constructive even if there are obviously other trade policy effects on imports.

What's left behind is that consumption added 1.2 of the 2.1% GDP headline on a weighted contribution basis. That was almost entirely due to services spending that added 0.94 points to GDP growth. Durables consumption added only 0.15% which we largely already knew (autos). Nondurables added 0.1 points.

We also had a good idea that investment would be soft based on durable goods orders. Total investment neither added nor subtracted to GDP in weighted terms. Nonresidential investment subtracted 0.2 points and residential investment perfectly offset that. Within biz investment, equipment spending dragged about 0.2 points off of GDP growth

Net trade added 1.5 percentage points to the 2.1% GDP headline. Almost all of that was because of less of an import leakage effect (imports fell, which in an accounting sense boosts GDP). Gross exports added only 0.2% to GDP

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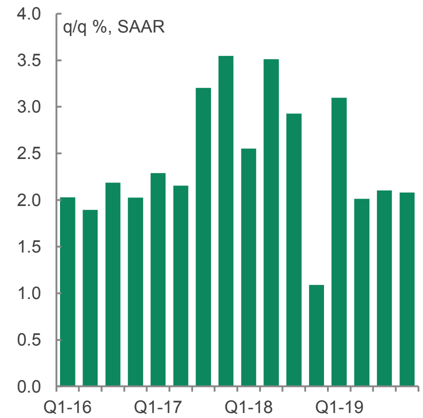
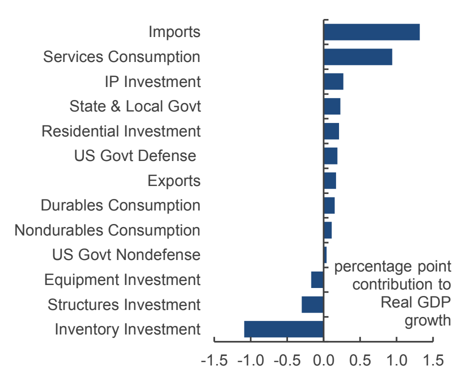
**Quarterly US Real GDP Growth**




Sources: Scotiabank Economics, BEA.

**Contributions to Q4 US Real GDP**



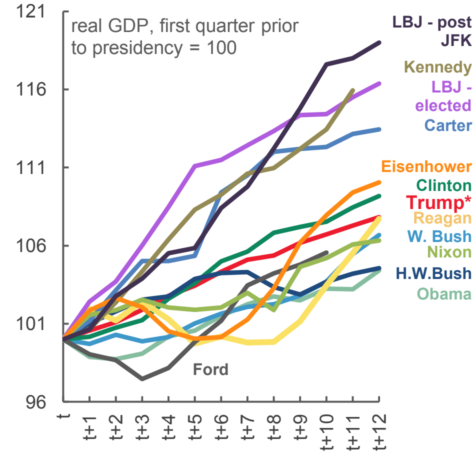

Sources: Scotiabank Economics, BEA.

Government spending made a strong 0.5% weighted contribution to growth which was evenly split between federal and state/local levels. Within Federal, it was all defense spending that single handedly added 0.2% to GDP growth. Who says priming the pump for war isn't good for the economy....

Also note that core PCE inflation sharply decelerated at 1.3% q/q SAAR to reverse two quarters of improvement. Nevertheless, quarter-ago PCE inflation is volatile and at 1.6% y/y this reveals nothing that wasn't really known in tracking the monthlies. In fact, it reinforces expectations for core PCE to land at 1.6% y/y in December tomorrow.

Markets are already priced for Fed easing later in the year and so weak core PCE inflation doesn't come as much of a surprise. Powell said yesterday that the FOMC anticipates higher core inflation over 2020. I'm skeptical toward that for a bunch of reasons previously given, but the Fed is looking through the Q4 inflation data. The full emphasis is upon how long the sub-2% readings continue and whether the Fed gets disappointed and acts. Our core story remains that yes inflation will continue to disappoint, the Fed won't sit on its hands (supported by Powell's remarks yesterday) and that could bring them off the sidelines again maybe around summer.

Real GDP Growth Among Presidents




Sources: Scotiabank Economics, US BEA.

Lastly, we can now fill in another quarter in chart 3 that compares GDP growth across Presidents. Three full years is a good sample. The chart does so by tracking inflation-adjusted GDP from the point of the election through to the present. Despite claims to the contrary, the economy has performed about average if not slightly worse than average under President Trump than under past Presidents on a term-to-date basis. Some of this is due to structural forces over time, some of it is due to isolationist policies like overt protectionism, but the offset compared to other past Presidents includes points like how Trump did not inherit a global financial crisis and Trump—notwithstanding his attacks—benefits from the easiest monetary policy in generations.