THE ECONOMIC OUTLOOK GROUP

475 Wall Street
PRINCETON, NEW JERSEY 08540 Tel: 609 - 529 - 1300
www.economicoutlookgroup.com

ECONOMIC TALKING POINTS

Bernard Baumohl
Chief Global Economist

April 26, 2019

The Tyranny of a Headline GDP Number

On the outside, it looks like a shiny muscle car. Lift the hood, however, and you see a fragile one-cylinder engine. That is the reaction one should have on how the economy performed the first three months of this year.

One big worrisome sign of the economy's frail engine comes from personal consumption. While headline GDP jumped an eye-popping 3.2% rate, consumers largely stayed on the sidelines as spending rose a meek 1.2% in the period. It was the smallest increase in a year and the 2nd worst performance in nearly 5 years!

Nor did we get much power from the business side. Non-residential fixed investment increased just 2.7% in Q1, half the pace of the previous quarter and also one of the softest numbers in two years. Companies actually shut down new spending on equipment the first three months of the year (up just 0.2%, which was the most anemic performance in three years).

So any attempt to floor the accelerator on this muscle car will barely get it to chug passed 15 miles per hour.

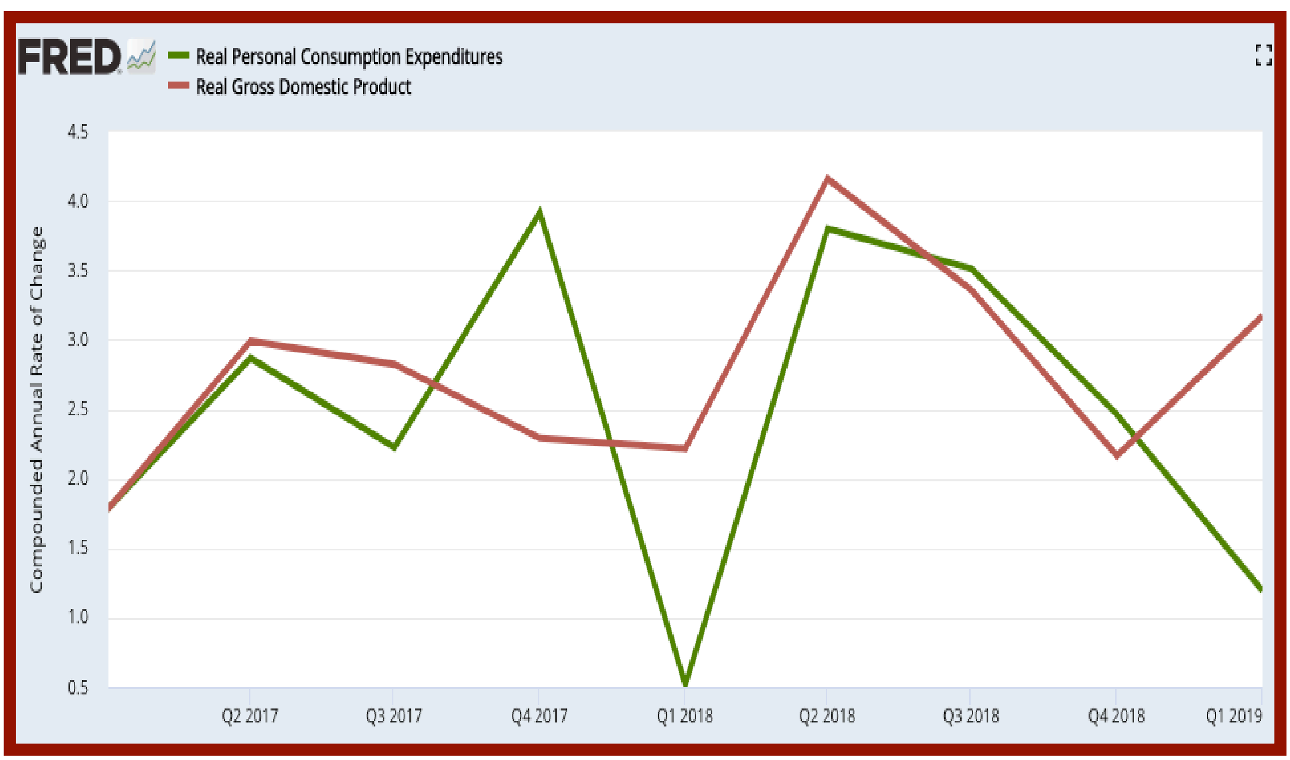
So what gave the first quarter's GDP print such a shiny look?

No mystery here. It was both the boost in net exports and swelling inventories. In terms of net exports, the key here is not that the US sold many more goods and services to other countries, but that imports collapsed --- and they did so for good reason. US companies significantly advanced planned purchases of goods in the second half of 2018 to escape paying the punitive tariffs imposed by the Trump Administration. So with stockrooms and back lots now full, businesses saw no reason to order more.

But this build-up in inventories could now become problematic. Companies fear it will take a lot longer to unload all these goods, given the apparent underlying weakness in consumer and business demand.

That evidence clearly emerged in another set figures in this report. While top line GDP growth was 3.2%, real final sales of private domestic purchases (which reflects actual demand in the US private sector) rose a miserly 1.3%. This gap between real GDP and final sales was the widest since the final quarter of 2011. It's a troubling harbinger of weaker growth ahead. (Not surprisingly, after that last chasm in late 2011, GDP growth slowed markedly the next three quarters in 2012)

So while the preliminary release on Q1 GDP growth may have initially excited some, by drilling down into the data a more sobering picture emerges. To be clear, we do not see a recession the next two years. It just seems more credible that the economy will continue to expand at a more modest pace of 2% - 2.5%. And that's not bad for a business cycle that will in July commence an unprecedented 11th year!



United States

	I 2018	II 2018	III 2018	IV 2018	I 2019	II 2019	III 2019	IV 2019	I 2020	II 2020	III 2020	IV 2020
Real Gross Domestic Product (GDP):												
%	2.2	4.2	3.4	2.2	3.2	2.7	2.4	2.1	1.8	2.6	2.3	2.3
Personal Consumption Expenditures:												
PCE %	0.5	3.8	3.5	2.5	1.2	2.4	2.0	2.2	1.8	2.4	2.0	2.5
Inflation, end of period, year-over-year:												
CPI %	2.4	2.9	2.3	1.9	1.9	2.2	2.3	2.4	2.5	2.4	2.4	2.1
Unemployment Rate (end of period):												
%	4.1	4.0	3.7	3.9	3.8	3.6	3.7	3.9	3.9	4.1	4.2	4.4
Non-farm Payrolls, monthly avg. thousand:												
	228	243	189	233	180	175	170	160	140	120	95	110
Treasury 10-yr Note Yield % (end of period):												
	2.74	2.85	3.06	2.76	2.42	2.69	2.95	3.05	3.25	3.40	3.30	3.15
Federal funds rate % (end of period):												
	1.63	1.88	2.13	2.38	2.38	2.38	2.38	2.63	2.63	2.38	2.13	2.13

GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
US	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.2	2.9	2.6	2.3
Eurozone	1.7	1.4	-0.9	-0.3	1.2	1.6	1.7	2.5	1.8	1.6	1.7
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.8	1.4	1.7	1.9
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	1.0	1.9	0.7	0.9	1.0
Canada	3.1	3.1	1.7	2.2	2.5	0.9	1.4	3.0	1.8	1.7	1.9
India	8.4	8.6	6.7	4.9	7.4	7.9	7.1	8.2	7.2	7.0	7.2
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.3	6.0
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.4	2.3	2.2	2.4
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.9	2.1	2.0	1.7	1.5
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	2.8	2.9
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.3	2.0	1.9
World	4.2	3.0	2.6	2.9	3.0	2.8	2.6	3.3	3.1	2.8	2.7