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USA

Step-by-step return to high growth momentum

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The US economy disappointed in the first quarter of this year. Although it was to be expected that economic momentum would be less strong than in the second half of 2013, the scale of the slowdown, in which the severe winter played a role, is nonetheless hefty. The normalization of production and demand already seen in the course of the first quarter shows that the disruption to economic activity was only temporary. Overall, the available economic indicators point to above-average GDP growth in the second quarter.

According to the second official estimate the US economy shrank slightly in the first quarter of this year. Real gross domestic product was down by an annualized 1% on the final quarter of 2013. This weakness reflects two things: For one, the cold winter hampered production and demand. Second, exports and inventory investment, which had advanced well above underlying trends in the second half of 2013, underwent a correction. In the first quarter of 2014 inventory investment was at not even half the level seen at the end of 2013. And, following the appreciable decline, exports were only 0.7% up on their third quarter 2013 level. In our view, the latest trend in exports clearly understates the growth to be expected in light of the economic performance among the main trading partners. From the level now reached, a rebound in both exports and inventory investment looks very likely.

The profile of key monthly indicators indicates that the weakness of the US economy in the first quarter stemmed from a soft patch at the turn of the year (December, January). But since then the US economy has bounced back appreciably. Nor does the downward blip in April alter this. Despite a dip, retail sales, capital goods orders and manufacturing sector output in April were all still well up on their first-quarter average.

With readings well above the expansion threshold, the purchasing managers' indices for May for the manufacturing industry and the services sector signal a renewed step-up in the coming months. Particularly encouraging is not only the very upbeat take on production but also the assessment of solid order backlogs.

There are also growing signs that the dip in home sales seen last year following the rise in mortgage rates has now come to an end and that sales figures are at least starting to pick up slightly. This will support a recovery in residential investment as the realtor fees due on such transactions are subsumed under this demand component.

All in all, above-average GDP growth of around 4% (at an annual rate) looks to be on the cards in the second quarter.

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