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USA

US GDP: another slip-up in the first quarter

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The US economy made a very subdued start to 2015. Just like the disappointing start to 2014, this is likely to be nothing more than a slip-up, as special factors were also at play. It would appear that these factors are partly responsible for the fact that the positive impact of lower oil prices has not yet fully come to fruition. Provided that economic momentum picks up over the next few quarters, driven in particular by private consumption, the US economy can still achieve growth of 2.5% by Q4 2015, as indicated by the Fed in its macroeconomic projections in March. In its latest statement on monetary policy decisions, the Federal Reserve also points to "transitory factors" as having contributed in part to the slowdown in growth. The Fed continues to expect favorable development in the economy, the labor market and inflation. Although the Fed is likely to continue to adopt a "wait and see" policy for the time being, initial key rate corrections are still likely to come this year.

Based on the advance estimate of the Bureau of Economic Analysis, real GDP only rose by 0.2% (annualized rate) in the first quarter of the year compared with the closing quarter of 2014. The growth in domestic demand was only around half as high as at the end of 2014 and foreign trade once again placed a damper on economic activity. The adjustments in investment to tap energy sources were not unexpected, but the extent of the adjustments was surprisingly pronounced given the drop in oil prices. Although this category only accounts for just under 1% of gross domestic product, the marked contraction of a good 15% (not annualized) meant that the negative growth effect was a tangible one.

The weak start to the year is also due to special factors. Both work stoppages in a number of ports on the west coast and unfavorable weather conditions hindered economic activity in the first few months of the year.

As these temporary burdens cease to apply and catch-up effects set in, the next few months should bring clearly positive impetus for the economy, particularly from private consumption, as consumption growth in recent months lagged a good 1 percentage point behind real income growth, which was boosted by the drop in oil prices. The resulting increase in the savings rate is not consistent with the development in the household net asset position, which tends to set the general trend in this respect. As a result, there is a good chance that consumer spending will grow at a faster rate than disposable income as the year progresses. We also expect to see a clear recovery in private and public construction activity. By way of example, the negative gap between construction starts and construction permits issued, which stood at a striking 9.3% in the first quarter, suggests that the residential construction has quite a bit of catch up work to do. The fact that exports contracted in the first quarter is something we believe to be attributable primarily to special factors as opposed to the strong dollar. Although the appreciation of the dollar will put a damper on export growth, exports could make a marked recovery in the short term. This is also confirmed if we look at the patterns that emerged in connection with strike activities in ports in the 1960s and 1970s. The second half of the year is also likely to signal the end of the downward correction in investment spending in the oil sector.

All in all, the US economy is likely to find its way back to above-average growth over the next few quarters, with annualized quarterly growth rates of around 3%.

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