ECOWEEK

No. 19-18, 03 May 2019

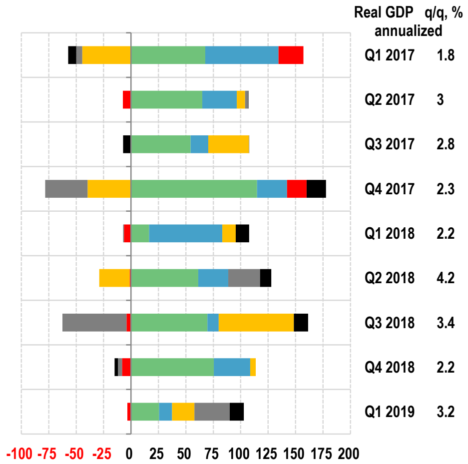
United States: Strong growth but questions about quality

■According to Jerome Powell, the fundamentals supporting the US economy remain solid ■First quarter growth has been robust but underlying concerns about the quality of growth have emerged ■Growth has benefitted from a drop in imports and rising inventory levels while residential investment acted as a drag ■ In the coming months, imports should rebound and inventories should witness a scale back. The onus will fall on consumer spending and corporate investment to neutralise the effects of these anticipated headwinds on growth.

According to Federal Reserve Chairman Jerome Powell, the fundamentals supporting the US economy are solid. One can think of the very low unemployment rate, the sustained pace of job creation, the growth of real disposable income, corporate profitability, the level of real interest rates, etc. One ponders, though, whether solid fundamentals have translated into solid growth? The Bureau of Economic Analysis reported last week that in the first quarter, real GDP increased at an annualized rate of 3.2% versus the previous quarter[1]. At first glance, this shows a strong performance of the economy, with growth accelerating following a slowdown in Q4 (2.2%). However, the quality of growth is an issue. Personal consumption expenditures increased a meagre 1.2%, residential investment contracted for the fifth consecutive quarter while growth in equipment investment remained basically flat. In contrast, investment in intellectual property products continued to grow strongly (+8.6%). Exports increased 3.7%, but imports surprisingly declined 3.7% resulting in net exports providing a strong boost to GDP growth. Finally, government consumption and investment increased 2.4%. In terms of contribution, of the 3.2% increase in GDP, 0.82 percentage points came from personal consumption expenditures (with half of the contribution emanating from health care related expenses), 0.65 p.p. stemmed from an increase in inventories, 0.58 p.p. from a decline in imports, 0.45 p.p. from exports, 0.41 p.p. from government expenditures (principally state and local investment), 0.38 p.p. from non-residential investment (entirely explained by intellectual property products). Residential investment acted as a drag (-0.11 p.p.). The chart takes a longer perspective by decomposing the annualized quarterly growth rates in terms of its main contributors since the start of 2017[2]. The contribution of residential investment has been negative for several quarters in a row. The contribution of non-residential private fixed investment has broadly shrunk over the past year. Meanwhile, changes in inventories have had a positive contribution since the third quarter of 2018. All in all, this shows that, although growth may be solid, its quality may be less so. This suggests a number of possible developments in the coming months. The recent decline in imports seemed out of line, so one should expect a rebound (if this were not to happen, it would send a chilling signal about the future course of aggregate demand). A scale back in inventory accumulation by companies also seems inevitable given the build-up over the past several quarters. This should weigh on production and ultimately on growth. Moreover, the strengthening of the real effective exchange rate since the spring of last year could weigh on exports.

CONTRIBUTION TO US GDP GROWTH

personal consumption expenditures ■ nonresidential private fixed investment ■ residential private domestic investment ■ change in private inventories ■ net exports of goods & services ■ gov.consumption & investment



Source: BEA - Bureau of Economic Analysis, BNP Paribas calculations

William De Vijlder

[1] The Bureau of Economic Analysis insists that this 'advance estimate' is based on incomplete data and could be subject to revisions. A second estimate will be released on May 30th. The average magnitude of the revisions in absolute terms has been 0.5 percentage points. This would imply a growth rate in a range of 2.7-3.7%.
[2] The p.p contributions of the GDP components have been scaled into percentages to help illustrate how the drivers of growth have evolved over the selected time period.

ECONOMIC RESEARCH DEPARTMENT

BNP PARIBAS

The bank for a changing world

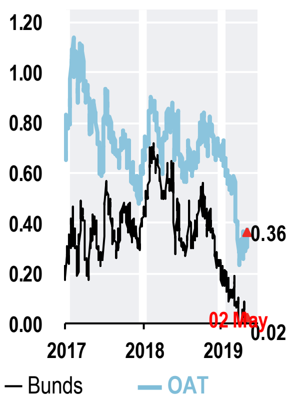
Markets overview

The essentials

Week 26-4 19 > 2-5-19

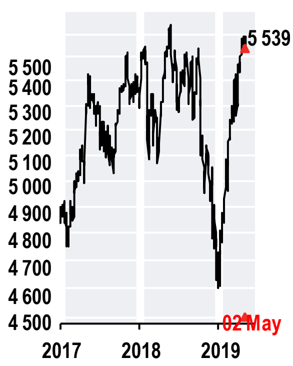
↘ **CAC 40**	5 569	▸	**5 539**	**-0.5**	%
↘ **S&P 500**	2 940	▸	**2 918**	**-0.8**	%
↗ Volatility (VIX)	12.7	▸	14.4	+1.7	pb
↗ **Euribor 3M** (%)	-0.31	▸	**-0.31**	**+0.1**	bp
↘ Libor $ 3M (%)	2.58	▸	2.58	-0.7	bp
↗ OAT 10y (%)	0.29	▸	0.36	+7.0	bp
↗ Bund 10y (%)	-0.02	▸	0.02	+4.3	bp
↗ US Tr. 10y (%)	2.50	▸	2.55	+4.9	bp
↗ **Euro vs dollar**	1.12	▸	**1.12**	**+0.2**	%
↘ Gold (ounce, $)	1 288	▸	1 268	-1.5	%
↘ **Oil (Brent, $)**	72.0	▸	**70.2**	**-2.5**	%

10 y bond yield, OAT vs Bund



Euro-dollar

CAC 40



Money & Bond Markets

Interest Rates		highest' 19		lowest' 19	
€ ECB	**0.00**	0.00	at 01/01	0.00	at 01/01
Eonia	**-0.36**	-0.36	at 01/01	-0.37	at 26/02
Euribor 3M	**-0.31**	-0.31	at 24/01	-0.31	at 24/04
Euribor 12M	**-0.11**	-0.11	at 06/02	-0.12	at 02/01
$ FED	**2.50**	2.50	at 01/01	2.50	at 01/01
Libor 3M	**2.58**	2.81	at 01/01	2.58	at 01/05
Libor 12M	**2.71**	3.04	at 21/01	2.68	at 27/03
£ BoE	**0.75**	0.75	at 01/01	0.75	at 01/01
Libor 3M	**0.82**	0.93	at 29/01	0.82	at 30/04
Libor 12M	**1.10**	1.19	at 11/01	1.05	at 02/04

At 2-5-19

Yield (%)		highest' 19		lowest' 19	
€ AVG 5-7y	**0.37**	0.68	at 09/01	0.36	at 12/04
Bund 2y	**-0.58**	-0.53	at 05/03	-0.63	at 27/03
Bund 10y	**0.02**	0.25	at 01/01	-0.08	at 27/03
OAT 10y	**0.36**	0.73	at 08/01	0.24	at 27/03
Corp. BBB	**1.27**	2.15	at 08/01	1.27	at 02/05
$ Treas. 2y	**2.36**	2.62	at 18/01	2.22	at 27/03
Treas. 10y	**2.55**	2.78	at 18/01	2.37	at 27/03
Corp. BBB	**4.02**	4.65	at 01/01	3.95	at 30/04
£ Treas. 2y	**0.77**	0.83	at 27/02	0.63	at 02/04
Treas. 10y	**1.19**	1.35	at 18/01	0.99	at 25/03

At 2-5-19

10y bond yield & spreads

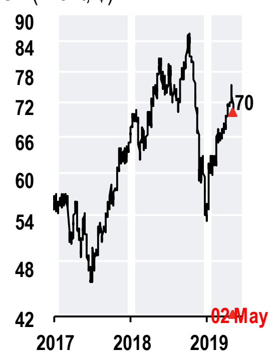
3.82%	Greece	379 pb
2.41%	Italy	238 pb
1.11%	Portugal	108 pb
1.00%	Spain	97 pb
0.46%	Belgium	43 pb
0.36%	France	34 pb
0.32%	Austria	30 pb
0.24%	Finland	22 pb
0.19%	Netherland	16 pb
0.17%	Ireland	15 pb
0.02%	Germany	

Commodities

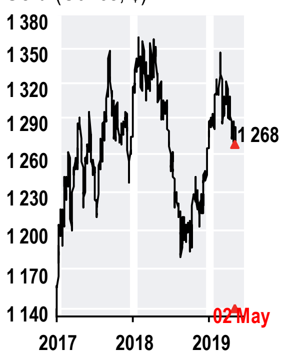
Spot price in dollars		lowest' 19			2019(€)
Oil, Brent	**70.2**	53.1	at	01/01	**+35.1%**
Gold (ounce)	**1 268**	1 268	at	02/05	**+1.2%**
Metals, LMEX	**2 905**	2 730	at	03/01	**+6.0%**
Copper (ton)	**6 166**	5 714	at	03/01	**+5.9%**
CRB Foods	**341**	324	at	07/03	**+7.6%**
wheat (ton)	**172**	168	at	11/03	**-10.6%**
Corn (ton)	**135**	128	at	24/04	**+1.3%**

At 2-5-19 *Variations*

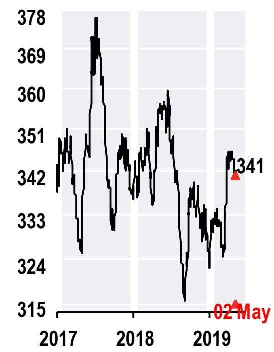
Oil (Brent, $)



Gold (Ounce, $)



CRB Foods



Exchange Rates

1€ =		highest' 19			lowest' 19			2019
USD	**1.12**	1.15	at	10/01	1.11	at	25/04	**-2.2%**
GBP	**0.86**	0.90	at	03/01	0.85	at	14/03	-4.4%
CHF	**1.14**	1.14	at	23/04	1.12	at	02/04	+1.1%
JPY	**124.74**	127.43	at	01/03	122.54	at	03/01	-0.5%
AUD	**1.60**	1.63	at	03/01	1.57	at	18/04	-1.6%
CNY	**7.53**	7.87	at	09/01	7.51	at	25/04	-4.0%
BRL	**4.43**	4.46	at	28/03	4.18	at	31/01	+0.1%
RUB	**73.20**	79.30	at	01/01	71.51	at	23/04	-7.7%
INR	**77.57**	82.00	at	04/02	76.84	at	03/04	-2.8%

At 2-5-19 *Variations*

Equity indices

	Index	highest' 19			lowest' 19			2019	2019(€)
CAC 40	**5 539**	5 592	at	23/04	4 611	at	03/01	+17.1%	**+17.1%**
S&P500	**2 918**	2 946	at	30/04	2 448	at	03/01	+16.4%	**+19.0%**
DAX	**12 345**	12 345	at	02/05	10 417	at	03/01	+16.9%	**+16.9%**
Nikkei	**22 259**	22 308	at	25/04	19 562	at	04/01	+11.2%	**+11.8%**
China*	**85**	86	at	09/04	68	at	03/01	+21.0%	**+23.6%**
India*	**597**	606	at	02/04	530	at	19/02	+6.4%	**+9.5%**
Brazil*	**2 036**	2 304	at	04/02	1 944	at	01/01	+7.1%	**+7.0%**
Russia*	**658**	682	at	23/04	572	at	01/01	+9.5%	**+17.6%**

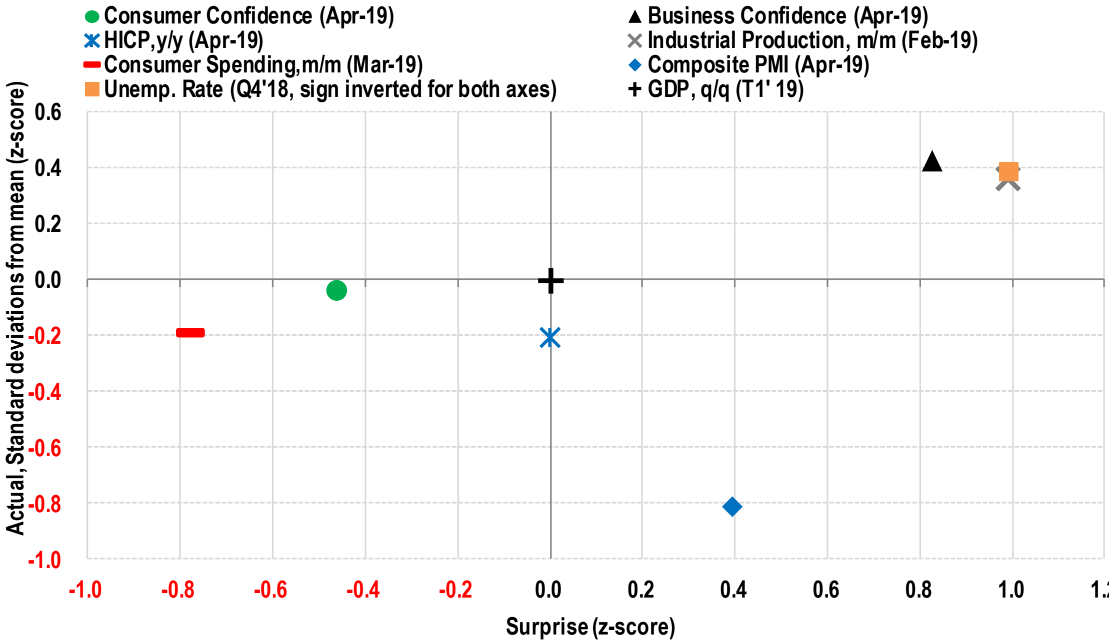
At 2-5-19 *Variations*

* MSCI index

Pulse

France: Ambivalent growth stability

According to the first INSEE's estimate, real GDP growth remained stable at 0.3% q/q in Q1 2019. This figure is in line with our expectations but it paints a mixed picture, an even more mixed one than during the two previous quarters. These latter depicted a weak but resistant activity. Regarding Q1, we favor the opposite picture, emphasising a bit more the lack of dynamism rather than the signs of resistance. The limited rebound in Q1 consumer spending illustrates well this ambivalence, as well as the split position of the different Pulse indicators on the quadrants of our chart.



Sources : INSEE, Markit, Bloomberg, calculs BNP Paribas

Indicators preview

Next week starts off with the composite purchasing manager indices in several countries. In France will have data for the trade balance, wages and job creation as well as industrial production. In Japan the consumer confidence index will be published. In the US we will have producer prices and consumer prices. For the UK, first quarter GDP growth will allow to assess the impact of Brexit related uncertainty.

Date	Country/Region	Event	Period	Survey	Previous
05/06/2019	China	Caixin China PMI Composite	April	--	52.9
05/06/2019	France	Markit France Composite PMI	April	--	50.0
05/06/2019	Eurozone	Markit Eurozone Composite PMI	April	--	51.3
05/06/2019	Eurozone	Retail Sales MoM	March	--	0.4%
05/07/2019	France	Trade Balance	March	--	-4.002e+09
05/08/2019	China	Trade Balance	April	--	3.264e+10
05/09/2019	Japan	Consumer Confidence Index	April	40.4	40.5
05/09/2019	United States	PPI Ex Food and Energy MoM	April	0.2%	0.3%
05/10/2019	France	Private Sector Payrolls QoQ	1Q	--	0.3%
05/10/2019	France	Industrial Production MoM	March	--	0.4%
05/10/2019	United Kingdom	GDP QoQ	1Q	--	0.2%
05/10/2019	United States	CPI MoM	April	0.4%	0.4%

Source: Bloomberg, BNP Paribas

Economic scenario

UNITED STATES

- Growth is expected to slow to 2.3% this year. Trade war uncertainty acts as a drag, the housing market is softening, corporate investment should slow, as well as exports in reaction to the past strengthening of the dollar against a broad range of currencies.
- Core inflation remains well under control and has eased a bit.
- Following the dovish message from the January FOMC meeting, markets are pricing in a policy easing in the course of 2020.

CHINA

- Economic growth continues to slow, with an export outlook severely darkened by US tariff hikes.
- The central bank is easing liquidity and credit conditions, though the reduction in financial-instability risks via regulatory tightening should remain a priority. Fiscal policy has also turned expansionary through increased infrastructure spending and a rising number of household/corporate tax cuts.
- In the short term, private domestic demand should be affected by the knock-on effect of weakening exports and the continued moderation in the property market. Fiscal measures should support consumer spending.

EUROZONE

- The slowdown is becoming increasingly evident, especially in the German economy, which has suffered from one-off factors but also from a slowdown of exports to China. Capacity constraints also play a role. Business climate in the manufacturing sector continues to decline. Italy has now entered a technical recession with quarterly growth negative in the third and fourth quarter of 2018.
- Inflation is now expected to decrease following the past drop in the oil price, while core CPI is hardly moving. The activity slowdown also implies that the pick-up in core inflation should be slower than expected until recently. We do not expect the ECB to move rates this year (see below).

FRANCE

- Growth is slowing although the economy should show some resilience. Households' consumption should get a boost from the tax cuts and the jobs recovery but inflation reduces purchasing power gains. Business investment dynamics remain favourable. The global backdrop is less supportive. A slight rise in core inflation is appearing but remains to be confirmed.

INTEREST RATES AND FX RATES

- In the US, the Fed has announced to be patient before deciding on any change in its policy. We expect key rates to stay on hold. We have changed the forecast for 10 year treasury yields and now expect a yield of 2.80% by mid-year and 2.70% at the end of the year.
- As the ECB confirmed that key rates won't change this year, the forecast for 10 year Bund yields and now expect a yield of 0.30% by mid-year and 0.40% at the end of the year.
- No change expected in Japan.
- The prospect of a narrowing bond yield differential between the US and the eurozone should cause a strengthening of the euro, all the more so considering it is still below its long-term fair value (around 1.34).

	GDP Growth			Inflation		
%	2018	2019 e	2020 e	2018	2019 e	2020 e
Advanced	**2.2**	**1.5**	**1.3**	**2.0**	**1.4**	**1.6**
United-States	2.9	2.3	1.8	2.4	1.7	2.0
Japan	0.8	0.2	0.3	1.0	0.5	0.5
United-Kingdom	1.4	1.1	1.5	2.5	2.0	1.9
Euro Area	**1.8**	**0.9**	**1.0**	**1.8**	**1.2**	**1.4**
Germany	1.4	0.7	0.9	1.9	1.4	1.7
France	1.6	1.2	1.2	2.1	1.2	1.7
Italy	0.8	0.0	0.5	1.3	0.9	1.2
Spain	2.6	2.1	1.7	1.7	1.0	1.4
Emerging	**4.5**	**4.4**	**4.7**	**4.8**	**4.6**	**4.2**
China	6.6	6.2	6.0	2.1	1.6	2.0
India*	7.4	7.6	7.8	3.4	3.3	4.1
Brazil	1.1	2.0	3.0	3.7	3.8	3.6
Russia	2.3	1.5	1.7	2.9	5.1	4.1

Source : BNP Paribas Group Economic Research (e: Estimates & forecasts)

* Fiscal year from April 1st of year n to March 31st of year n+1

Interest rates, %		2019						
End of period		Q1	Q2e	Q3e	Q4e	2018	2019e	2020e
US	Fed Funds	2.50	2.50	2.50	2.50	2.50	2.50	2.50
	Libor 3m $	2.60	2.60	2.60	2.60	2.81	2.60	2.50
	T-Notes 10y	2.42	2.80	2.75	2.70	2.69	2.70	2.50
Ezone	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.31	-0.30	-0.30	-0.30	-0.31	-0.30	-0.30
	Bund 10y	-0.07	0.30	0.30	0.30	0.25	0.30	0.40
	OAT 10y	0.26	0.65	0.65	0.60	0.71	0.60	0.70
UK	Base rate	0.75	1.00	1.00	1.25	0.75	1.25	1.25
	Gilts 10y	1.00	1.85	2.00	2.10	1.27	2.10	2.10
Japan	BoJ Rate	-0.06	-0.10	-0.10	-0.10	-0.07	-0.10	-0.20
	JGB 10y	-0.09	-0.03	-0.05	-0.05	0.00	-0.05	-0.20

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates		2019						
End of period		Q1	Q2e	Q3e	Q4e	2018	2019e	2020e
USD	EUR / USD	1.12	1.17	1.18	1.20	1.14	1.20	1.25
	USD / JPY	111.0	108.0	105.0	100.0	110.0	100.0	90.0
	GBP / USD	1.30	1.38	1.40	1.45	1.27	1.45	1.51
	USD / CHF	1.00	0.97	0.97	0.97	0.99	0.97	0.93
EUR	EUR / GBP	0.85	0.85	0.84	0.83	0.90	0.83	0.83
	EUR / CHF	1.12	1.14	1.15	1.16	1.13	1.16	1.16
	EUR / JPY	124.0	126.0	124.0	120.0	125.0	120.0	113.0

Source : BNP Paribas GlobalMarkets (e: Forecasts)

GROUP ECONOMIC RESEARCH

William De Vijlder Chief Economist	+33 1 55 77 47 31	william.devijlder@bnpparibas.com
ADVANCED ECONOMIES AND STATISTICS		
Jean-Luc Proutat Head – United States, United Kingdom	+33 1 58 16 73 32	jeanluc.proutat@bnpparibas.com
Hélène Baudchon France – Labour markets	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Louis Boisset European Central Bank watch, Euro area global view, Japan	+33 1 57 43 02 91	louis.boisset@bnpparibas.com
Frédérique Cerisier Euro area (European gouvernance and public finances), Spain, Portugal	+33 1 43 16 95 52	frederique.cerisier@bnpparibas.com
Catherine Stephan Nordic countries – World trade – Education, health, social conditions	+33 1 55 77 71 89	catherine.stephan@bnpparibas.com
Raymond Van Der Putten Germany, Netherlands, Austria, Switzerland – Energy, climate – Long-term projections	+33 1 42 98 53 99	raymond.vanderputten@bnpparibas.com
Tarik Rharrab Statistics	+33 1 43 16 95 56	tarik.rharrab@bnpparibas.com
BANKING ECONOMICS		
Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Laure Baquero	+ 33 1 43 16 95 50	laure.baquero@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+ 33 1 40 14 30 77	thomas.humblot@bnpparibas.com
EMERGING ECONOMIES AND COUNTRY RISK		
François Faure Head	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam, other North Asian countries, South Africa	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Sylvain Bellefontaine Turkey, Ukraine, Central European countries	+33 1 42 98 26 77	sylvain.bellefontaine@bnpparibas.com
Sara Confalonieri Africa (Portuguese & English-speaking countries)	+33 1 42 98 43 86	sara.confalonieri@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot Korea, Thailand, Philippines, Mexico, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan, CIS	+33 1 58 16 05 84	johanna.melka@bnpparibas.com
CONTACT MEDIA		
Michel Bernardini	+33 1 42 98 05 71	michel.bernardini@bnpparibas.com

OUR PUBLICATIONS

CONJONCTURE

Structural or in news flow, two issues analysed in depth

EMERGING

Analyses and forecasts for a selection of emerging economies

PERSPECTIVES

Analyses and forecasts for the main countries, emerging or developed

ECOFLASH

Data releases, major economic events. Our detailed views…

ECOWEEK

Weekly economic news and much more…

ECOTV

In this monthly web TV, our economists make sense of economic news

ECOTV WEEK

What is the main event this week? The answer is in your two minutes of economy

POUR RECEVOIR NOS PUBLICATIONS

VOUS POUVEZ VOUS ABONNER SUR NOTRE SITE ONGLET ABONNEMENT
http://economic-research.bnpparibas.com

ET

NOUS SUIVRE SUR LINKEDIN
https://www.linkedin.com/showcase/bnp-paribas-economic-research/
OU TWITTER
https://twitter.com/EtudesEco_BNPP

Prepared by Economic Research – BNP PARIBAS
Registered Office: 16 boulevard des Italiens – 75009 PARIS
Tel: +33 (0) 1.42.98.12.34 – Internet :
www.group.bnpparibas.com
Publisher: Jean Lemierre. Editor: William De Vijlder

BNP PARIBAS

The bank
for a changing
world