

ECONOMIC PULSE

UNITED STATES: SIGNIFICANT IMPROVEMENT IN JANUARY EMPLOYMENT AND CONFIDENCE DATA

According to its first estimate, Q4 19 US growth reached 2.1% q/q (saar), matching expectations. No bad news is good news. The fact that the growth rate is keeping pace with the two previous quarters (it has notably been its average pace since the start of the cycle mid-2009) can also be seen positively. Growth remains moderate however and its breakdown paints a mixed picture. In fact, the very positive contribution of net exports saves the day. But this positive contribution results from a negative evolution: the plunge in imports, also to be weighed against the very negative contribution of change in private inventories. On the personal consumption expenditures side, the significant deceleration was expected after two quarters of very strong growth. In contrast, the third decline in a row of nonresidential investment is more concerning.

Q1 20 growth prospects look mixed. On the positive side, residential investment is likely to grow strongly for the third quarter in a row. Change in private inventories could also provide additional support: a technical rebound is possible indeed after three quarters of negative contribution.

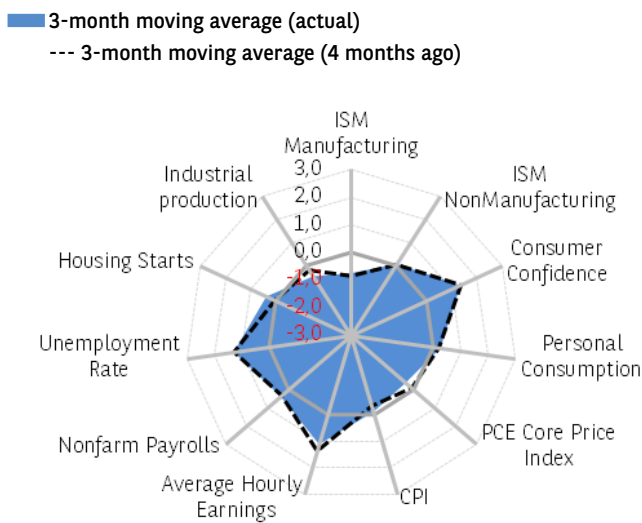
The three key surveys (manufacturing ISM, non-manufacturing ISM, Conference Board consumer confidence index) all surprised on the upside in January. The manufacturing ISM index has rebounded significantly and has crossed the 50 threshold again for the first time since July 2019. The non-manufacturing ISM index also slightly improved, for the second month in a row, to a level that corresponds to its long-term average. Consumer confidence materially increased again, from an already high level. Last but not least, the January employment report also surprised positively, with 225k non-farm payrolls added, a clear improvement after the disappointing December figure (147k).

However, the Conference Board leading economic indicator downtrend, already dating back to mid-2019 and albeit of limited scope, is a negative signal to be closely monitored. Moreover, we have to expect that the economic indicators for the next two months at least (February and March) will be negatively impacted by the coronavirus outbreak.

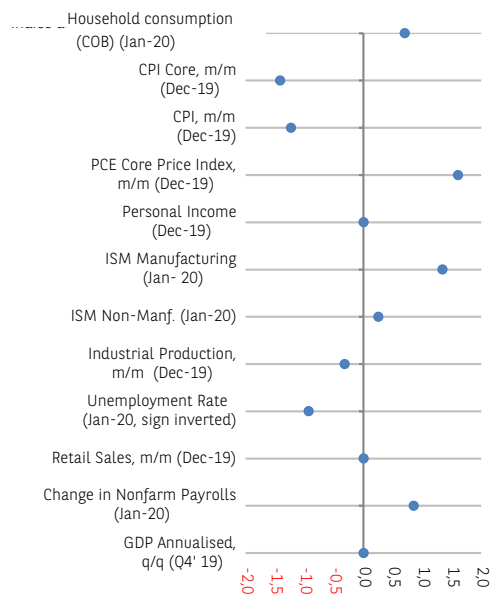
Hélène Baudchon

QUARTERLY CHANGES

SURPRISE (Z-SCORE)



SOURCE: THOMSON REUTERS, BNP PARIBAS



SOURCE: BLOOMBERG, BNP PARIBAS

The indicators in the radar and surprise charts are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -3 and 3 in almost all cases. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area signals an improvement. In the right pane, the surprise is an actual outcome that differs from the market forecast (Bloomberg).

