

# Flash Comment US

## Slower growth in Q4 one reason for the Fed to stay on hold in March

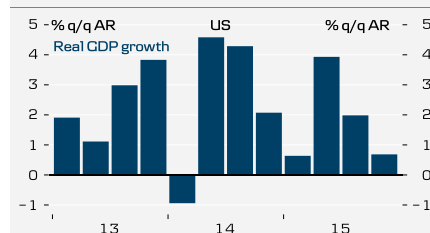
As expected, the first estimate of US national accounts in Q4 showed that US growth slowed significantly in Q4. The US grew 0.7% q/q AR (Danske Bank estimate 0.2% q/q AR, consensus 0.8% q/q AR). Private consumption grew 2.2% q/q AR, contributing 1.46pp to GDP growth in Q4. **The US economy has been driven mainly by private consumption over the past couple of years.** Net exports and inventories dragged GDP growth down by 0.5pp each. Gross private domestic investments declined 2.5% q/q AR in Q4 and thus dragged GDP growth down by 0.41pp. However there were large differences across assets. While residential investments increased 8.1% q/q AR, structures and equipment fell 5.3% q/q AR and 2.5% q/q AR, respectively. The latter partly reflects the slowdown in the US manufacturing sector and partly lower oil investments. Investments in shafts and wells declined 38.1% q/q AR in Q4. **The sharp fall in oil investments is dragging down GDP growth but, in terms of employment, it is less of a concern, as most Americans are employed in the service sector.**

**We expect the US to continue to grow at a moderate pace this year.** However, since oil investments will probably continue to drag down growth for some time and the manufacturing sector is still struggling, **it depends almost solely on US consumers.** We expect private consumption to continue to be the main growth driver supported by higher employment, positive real wage growth and high consumer confidence. Consumer confidence in January was relatively unaffected by the financial market turmoil. However, **the risk is that the slowdown in the energy and manufacturing sector will have negative contagion effects on the rest of the economy.**

**The first estimate confirmed that the Fed increased the Federal funds rate at the same time as the economy slowed,** which the FOMC statement from the meeting held earlier this week also recognised. However, the labour market is key to understanding why the Fed made the initial lift-off as the labour market is more or less back to 'normal' as the Fed lives in a Phillips curve world. This said, slower GDP growth in Q4, weak manufacturing data, subdued core inflation low market inflation expectations and financial market turmoil explain why the Fed was relatively dovish in the latest FOMC statement. **While today's release supports our view that the Fed will stay on hold in March, our main scenario is still that it will hike for the second time in April, although there are downside risks to this call, as, in our view, the Fed will not risk tightening too much, too quickly.** Our expectation is based on our main scenario, which is that financial stress will ease and data will rebound. For more details, see *FOMC review: Less 'confident' Fed likely to stay on hold in March as well*, 27 January.

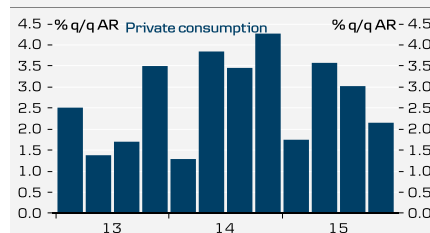
**Focus is now on the January jobs report due next Friday, as the strong development in the labour market is one of the few bright spots left in the Fed's 'chart book'.** If we see a strong report, it is likely to confirm that the economy continues to grow at a moderate pace. However, if the report is weak, it could be a game changer for the Fed and could also weigh significantly on market sentiment, as some of the market anxiety is due to US growth concerns.

### GDP growth slowed in Q4



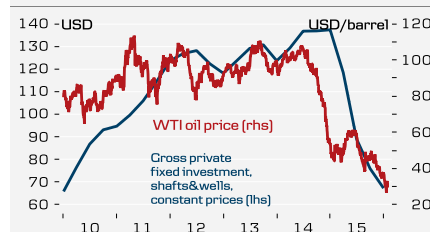
Source: BEA

### Growth driven solely by private consumption



Source: BEA

### Oil investments partly explain the fall in investments



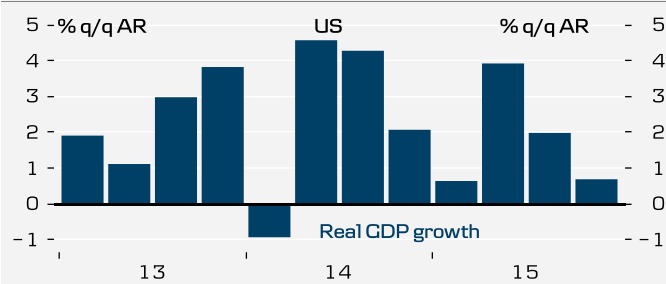
Source: BEA, Macrobond Financial

#### Analyst

Mikael Olai Milhøj  
+45 45 12 76 07  
milh@danskebank.dk

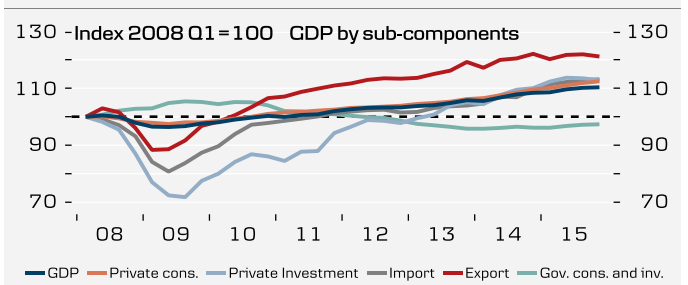
Chart book

GDP growth slowed in Q4



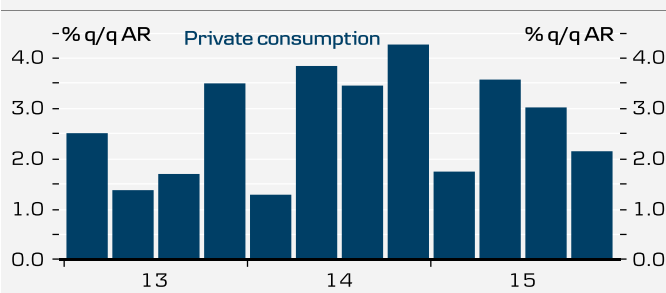
Source: BEA

GDP by sub-component



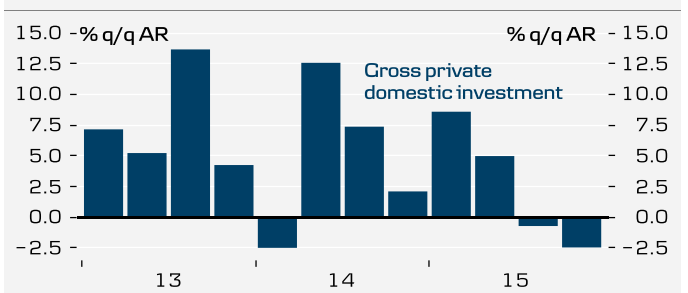
Source: BEA

Solid growth in private consumption



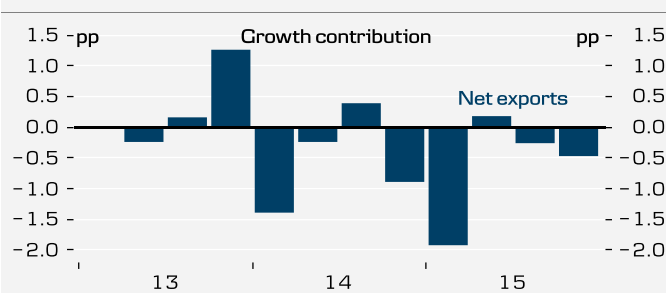
Source: BEA

Another decline in gross private domestic investments



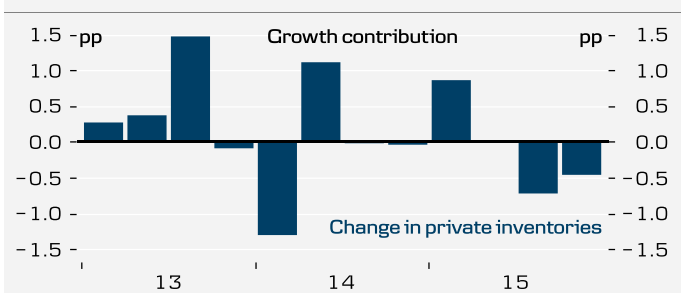
Source: BEA

Net exports dragged GDP growth down in Q4



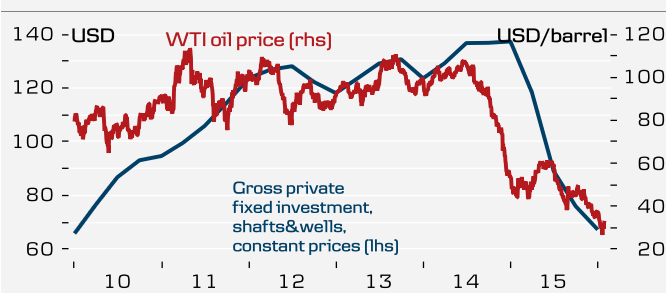
Source: BEA

Private inventories also pulled GDP growth down



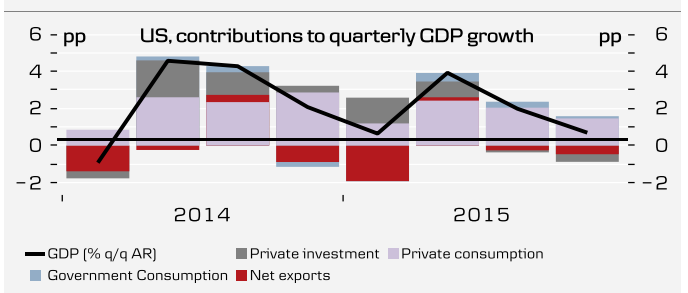
Source: BEA

Oil investments partly explain the fall in investments



Source: BEA, Macrobond Financial

Growth driven by private consumption



BEA

## Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The author of this research report is Mikael Olai Milhøj, Analyst.

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the Danish Society of Financial Analysts' rules of ethics and the recommendations of the Danish Securities Dealers Association.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

### Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

### Date of first publication

See the front page of this research report for the date of first publication.

## General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

### Disclaimer related to distribution in the United States

This research report is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.