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Markit Economic Research

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United States

Second quarter GDP rebound adds to survey signals of vibrant economy

- **GDP surges at 4.0% rate in Q2 after weather-related decline in Q1**
- **PMI points to ongoing robust growth in Q3**
- **Upturn driven by rising consumer spending and business investment. Trade acts as drag despite solid rise in exports**

The US economy rebounded strongly in the second quarter, and further impressive growth looks likely for the third quarter. However, it looks like the pace of expansion should start to moderate after the impressive growth spurt seen in the spring, meaning policymakers will be relaxed about the timing of the next rise in interest rates.

Official data from the Commerce Department showed gross domestic product rising at an annualised rate of 4.0% in the second quarter. The expansion was greater than the average 3.0% forecast by economists, but closely in line with the signal from the PMI surveys (see first chart and our predictions from 3 July).

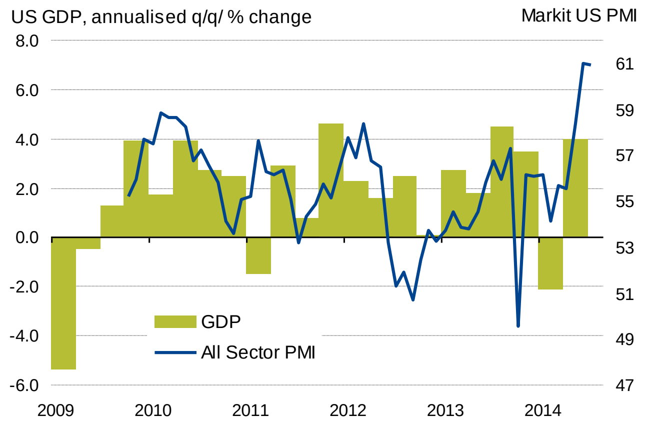
The upturn part reflects a rebound from the first quarter, when adverse weather disrupted businesses across many parts of the country. The first three months of the year saw GDP fall at an annualised rate of 2.1% (revised up from an earlier estimate of -2.9%).

However, this is not just a case of better weather. Evidence indicates that there has also been an underlying improvement in the economy, and that robust growth will be sustained into the third quarter.

The most promising signals come from Markit's PMI surveys, which had surged higher in the second quarter and held at a post-recession high in July. Business clearly continued to boom at the start of the third quarter.

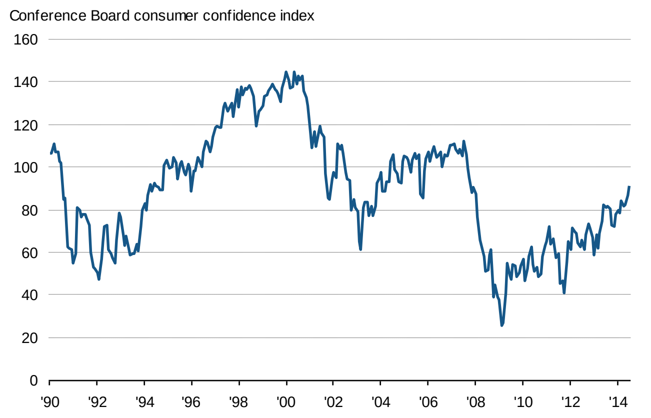
Households are also set to help boost the economy in the third quarter. July survey data showed consumer confidence running at its highest since 2007, with optimism fuelled by greater job security and rising employment. The unemployment rate has dropped to 6.1%, its lowest since September 2008, with an average of 231,000 jobs created in each of the first six months of the year so far.

US gross domestic product and the Markit PMI™



Sources:Markit, Ecowin.

Consumer confidence



Source: Ecowin.

US Business Outlook Survey

Source: Markit.

Looking further ahead, an outlook poll conducted by Markit showed that business confidence among manufacturing and service sector companies in the US about their activity levels over the coming year remained buoyant in the summer, unchanged on the optimistic readings seen at the start of the year.

As good as it gets?

However, while growth is set to continue into the third quarter, the second quarter's growth surge may be the best we see this year in terms of the rate of expansion. The same business outlook survey which showed optimism about business activity holding firm on the buoyant picture seen earlier in the year showed future hiring and investment intentions falling, with companies focusing on cost control more so than at any time since the financial crisis. Many companies attributed this to uncertainties regarding the cost impact associated with new healthcare reforms.

The data therefore suggest that GDP should continue to rise strongly in the third quarter, but that we are likely to see some moderation in the pace of expansion compared to the second quarter's growth spurt, as well as a slowing in the rate of job creation. While the Fed's tapering of its asset purchases looks set to continue, these easing trends should strengthen the case for interest rates not rising until mid-2015.

Consumers and business investment drive the upturn

In the detail of the second quarter GDP release, data indicate that the economy grew by 0.9% in the first half of the year, which suggests an expansion of approximately 2.0% for the whole year is looking like a reasonable expectation at the moment.

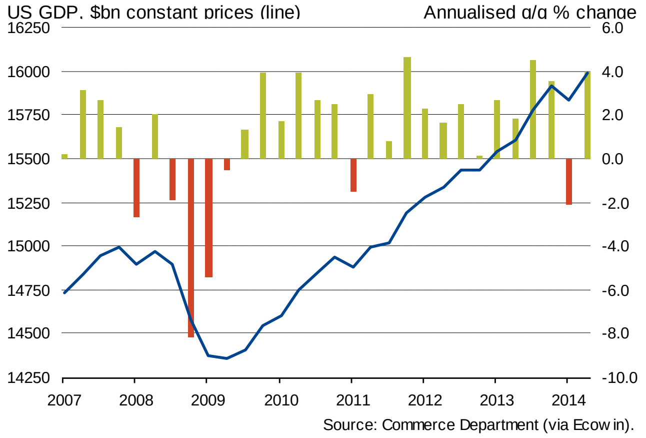
The Commerce Department also revised data back to 1999, the most important revisions being the most recent ones, which showed a better than previously thought performance in late 2013.

The second quarter expansion was driven by an upturn in consumer spending, which rose at an annualised rate of 2.5% after falling at a 1.2% pace in the first three months of the year. Spending on durable goods shot up an annualised rate of 14.0%, the biggest rise for five years.

Increased business investment and inventories also contributed to the second quarter expansion, though – as expected – trade acted as a drag. Business investment rose at an annualised rate of 5.5%, with spending on equipment surging at a 7.0% pace.

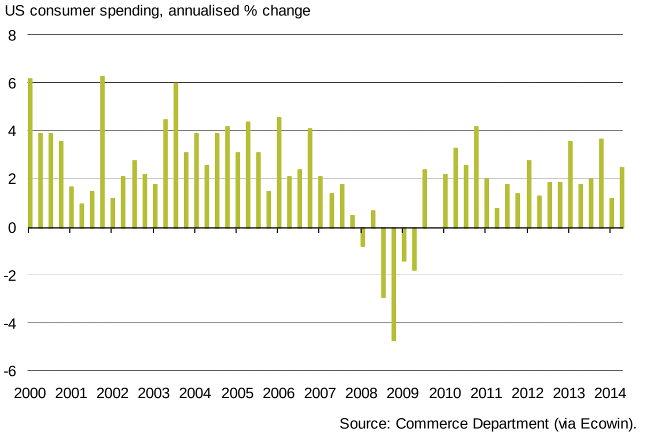
Exports rebounded, growing at a 9.5% annualised rate after a 9.2% decline in the first quarter. But imports rose at a faster rate of 11.7%.

GDP level and growth rate



Source: Commerce Department (via Ecowin).

Consumer spending



Source: Commerce Department (via Ecowin).

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