

# Flash Comment

## US: A soft GDP report, QE3 more likely

- **US GDP growth disappointed in Q4 rising only 2.8% vs. consensus of 3.0%. More disappointing were the details showing only 2.0% growth in private consumption and inventories adding almost two percentage points.**
- **Main drags come from government consumption and net exports. Fixed investment also slowed, but this was less of a surprise following weak capital goods orders.**
- **Looking ahead we expect continued growth around 2.5-3%. In 2013 we should see a recovery in exports and consumption growth around 2.5% as real incomes are growing around 3%. Inventories will not contribute in Q1, but we expect a smaller drag from the government sector in Q1 as this was extraordinarily weak in Q4.**
- **With this report we are moving closer to QE3. The Fed has clearly become more dovish following a change in composition of voting rights and is already having an easing bias.**

### Details

Private consumption rose only 2.0% in Q4 from 1.7% in Q3. This was disappointing given the tailwind from lower gasoline prices, but nominal spending growth slowed in Q4 and hence only left room for a muted rise in private consumption.

Other negatives in the report came from government spending, which fell 4.6% q/q and subtracted 0.9 percentage points from growth. Net exports were also weak as export growth continued at a slow rate of 4.7% and import growth was surprisingly strong rising to 4.4% from 1.2% in Q3. Net exports thus contributed -0.1 percentage points after a positive contribution of 0.4 percentage points in Q3.

That GDP growth was not weaker was due to a strong positive contribution from inventories of 1.9 percentage points following a drag in Q3 of 1.4 percentage points.

Residential construction was the only positive factor rising 10.9% in Q4 from 1.3% in Q3. Investment in equipment and software growth slowed to 5.2% from 16.2%, but this was no surprise after quite soft capital goods orders, which had actually indicated a sharper drop.

### Outlook and assessment

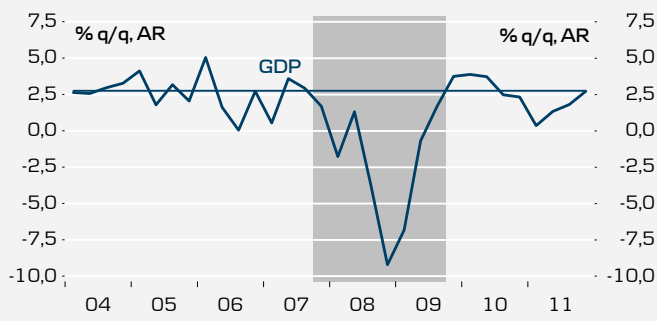
While growth disappointed in Q4 we still see scope for growth in the area of 2.5% in 2012. Consumption growth is underpinned by decent income growth as employment is picking up and inflation has come down. And exports are likely to recover as export markets are recovering slowly. Corporate investment should be underpinned by decent earnings growth and the housing market is also improving. Unemployment will only decline gradually though, and given the dovishness of the Fed at the recent meeting we have moved a lot closer to QE3.

GDP(Q4), % q/q, AR				
	Act	Con	DB	Last
GDP	2.8	3.0	3.0	1.8
Priv cons.	2.0	2.4	2.6	1.7

*Source: Bloomberg and Danske Markets*

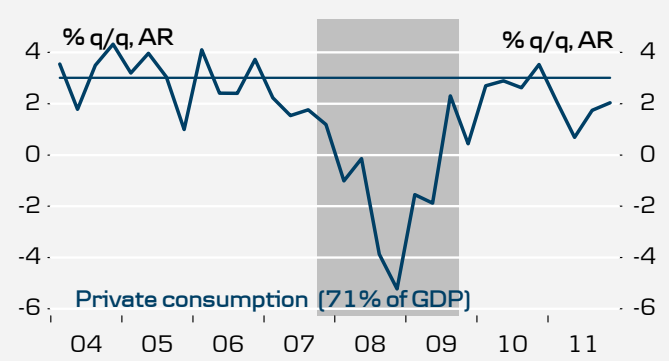
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**GDP growth higher but not as much as expected**



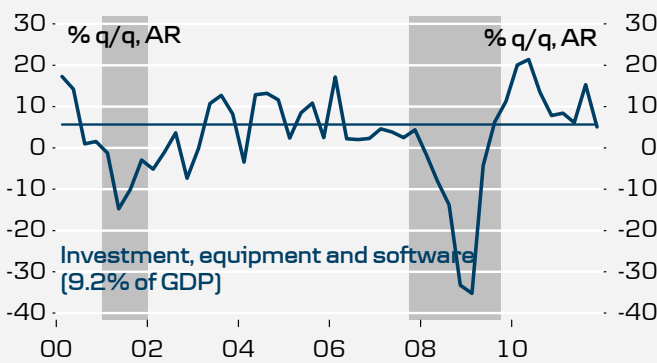
Source: EcoWin and Danske Markets

**Consumption growth still sluggish**



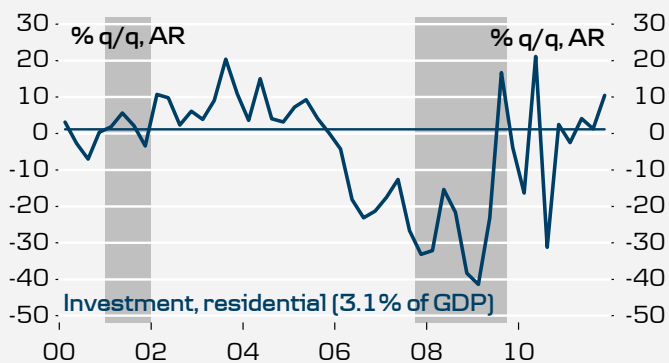
Source: EcoWin and Danske Markets

**CAPEX growth dipped in Q4**



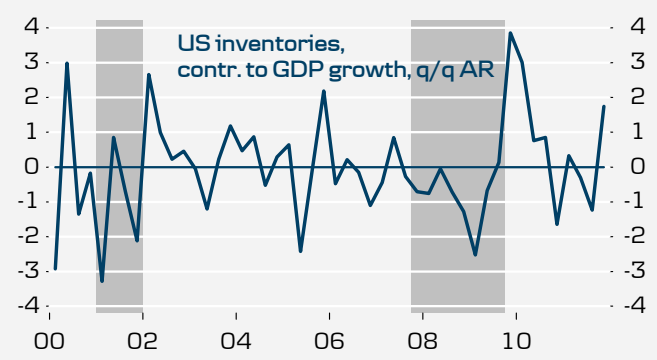
Source: EcoWin and Danske Markets

**Residential construction rebounds - but is small part of economy**



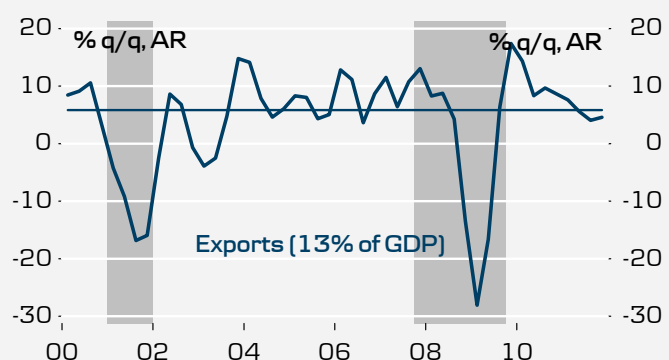
Source: EcoWin and Danske Markets

**High contribution from inventories - won't continue in coming quarters**



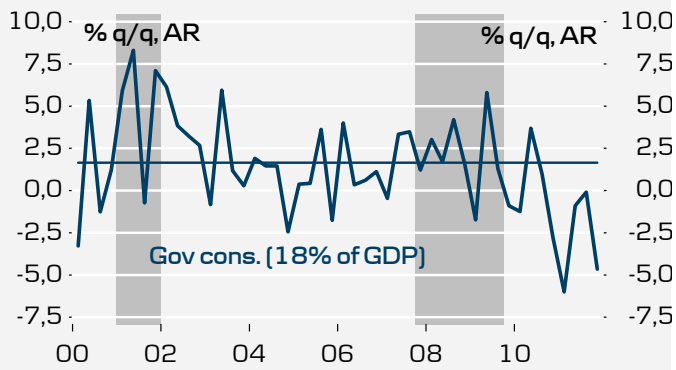
Source: EcoWin and Danske Markets

**Export growth slows**



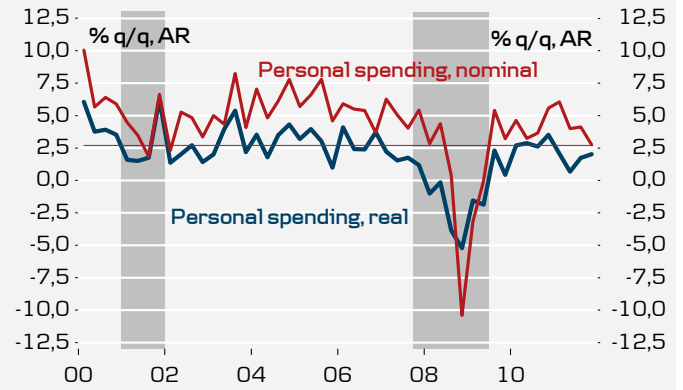
Source: EcoWin and Danske Markets

Big drag from the government sector



Source: EcoWin and Danske Markets

Nominal private consumption growth has slowed



Source: EcoWin and Danske Markets

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