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WEEKLY ANALYSIS

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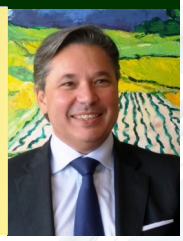

INFLUENCE OF TAPERING ALREADY VISIBLE IN THE US

GDP growth is not really slowing down. Personal consumption has taken off. Logistical constraints are setting in. Tensions ahead on employment. Fed doubts and announces tapering. Rising rates will shake up the markets.

Key Points

- US growth not really slowing down
- Personal consumption growing at a record pace
- Fall and possible rapid rebound in inventories?
- GDP still robust in Q3 and Q4
- Leading indicators hit by logistical constraints and employment
- Labour market increasingly tight
- Temporary weakness in household confidence
- The Fed begins to doubt and announces tapering
- Inflation will not be as temporary as the Fed would like
- Bonds and the dollar regain attractiveness
- Stocks react to tapering announcement

US growth not really slowing down

US GDP growth ended Q2 with a real performance of +6.7% on an annualised basis. It thus maintains the +6.6% pace already set in Q1 2021. Personal consumption growth followed the same path and grew at the same pace in Q2 (+12%) as in Q1 (11.9%), which was somewhat lower than expected due to the emergence of constraining effects on value chains and production. This affected the ability of companies to adapt to the strong recovery in domestic consumer demand. Supply and inventory management problems, among other factors, have disrupted supply and probably reduced its overall level.

Against this background, it is worth noting the extraordinary growth in aggregate demand and consumption in particular, which is at a multi-decade high. The performance of the US economy as measured by GDP has been significantly negatively affected by the inventories problem, with the decrease in inventories contributing a negative 1.1% to GDP growth. While this impact was negative in Q2, it is expected to become very positive again in Q3 and Q4. Indeed, companies had to draw heavily on their stocks in Q2 when they were faced with a strong recovery in demand and an increase in supply difficulties and delays. Personal consumption, for its part, surprised by its exceptional strength, even though it was expected to recover significantly. The +11.8% annualised increase is indeed the second highest since 1952.

Q2 growth seems stronger than the published figures, and in fact the US economy has now returned to its pre-pandemic inflation-adjusted GDP level of USD 19.36 trillion. The current quarter could see a slowdown due to the gradual disappearance of government support, the return of health risks posed by the emergence of new variants and tensions in both the labour market and value chains. The decrease in the savings rate from around 20% to 10% suggests that the strong recovery in consumption is also linked to the use of savings built up during the pandemic. The rise of inflation in Q2 was already significant as shown by the GDP deflator of +6.1%. The price index for consumer spending excluding food and energy, which is one of the US central bank's favourite indicators, thus recorded its strongest increase since 1983. A better economic climate and a reduction in health risks have also led companies to invest in capital goods.

Sources: Bloomberg, BBGI Group SA