

US economic growth slowed to 1.9 per cent rate in fourth quarter

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Washington: US economic growth slowed more than expected in the fourth quarter of 2016 as a downturn in export temporarily depressed the activity.

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According to the Commerce Department data, the gross domestic product (GDP) grew at an annual rate of just 1.9 per cent in October-December period, a slowdown from 3.5 per cent in the previous quarter.

"If you smooth out the volatility in soybeans, you get growth of around 2.5 percent in the two quarters. We really didn't have a slowdown at the end of the year," Nariman Behravesh, chief economist at IHS Markit, said.

For all of 2016, the economy grew 1.6 per cent. It was the worst showing in five years since a similar 1.6 per cent gain in 2011. GDP grew 2.6 per cent in 2015, and since the recession ended in mid-2009, growth has averaged a weak 2.1 per cent.

But analysts believe there were signs in Friday's report of a rebound in business spending and housing activity, which could lead to stronger growth in 2017 of around 2.5 per cent.

President Donald Trump has set a goal of doubling growth to 4 per cent in coming years through an ambitious stimulus program featuring tax cuts, deregulation and higher infrastructure spending.

Private economists believe sustained annual growth rates of 4 percent will be a high hurdle, given underlying trends such as slow growth in the labor market and weak productivity. However, many analysts have been boosting their forecasts believing that Trump will succeed in getting at least a portion of his program approved by a Republican-led Congress.

For the fourth quarter, the biggest factor contributing to the slowdown was a widening in the trade deficit. Exports, which had been temporarily bolstered by a surge in sales of soybeans to Latin America, retreated in the fourth quarter. Meanwhile, imports surged.

Trade cut 1.7 percentage points from growth in the fourth quarter after adding 0.9 percentage point to growth in the third quarter. A higher trade deficit subtracts from economic growth because it means more production is being supplied from abroad.

Consumer spending, which accounts for 70 per cent of economic growth, slowed to still-solid growth of 2.5 per cent in the fourth quarter from a 3 per cent gain in the third quarter. But business investment spending accelerated in the fourth quarter, rising at a 2.4 per cent rate, the best showing in more than a year. That's a hopeful sign that a prolonged slowdown in investment spending, reflecting in part big cuts by energy companies, is coming to an end.

Residential construction, which had been falling for two quarters, rebounded in the fourth quarter, rising at an annual rate of 10.2 per cent while government spending grew at a 1.2 per cent rate as strength in state and local activity offset a drop in activity at the federal level.

Rebuilding of business stockpiles added 1 percentage point to growth in the fourth quarter. The cutbacks in business

investment along with efforts by companies to reduce an overhang of unwanted inventories were major reasons growth slowed in 2016.

Economists are forecasting a better performance in 2017, with many raising their forecasts to incorporate the potential impact of Trump's stimulus program. They believe that the prolonged reduction in stockpiles has run its course and business spending on new plants and equipment will begin to rebound.

Economists at the International Monetary Fund last week boosted their outlook for U.S. GDP to 2.3 per cent this year and 2.5 per cent in 2018, saying the increase reflected expectations that Trump's economic program of tax cuts, regulatory relief and higher infrastructure had boosted growth prospects.

Some private economists are even more optimistic. Stuart Hoffman, chief economist at PNC, said he had pushed his outlook up to growth of 2.4 per cent in 2017 and 2.7 per cent in 2018.

Sung Won Sohn, an economics professor at California State's Martin Smith School of Business, said there is a lot of uncertainty at the moment about Trump's program since the new administration has yet to put forward its plan for Congress to consider.

"At the moment, we don't know the size, the scale and the timing of the Trump program," Sohn said. "But it is very possible that we will get a significant boost to economic growth in the second half of next year if Trump is successful getting his program through Congress."

Sohn predicted growth rates could jump to 3.5 to 4 per cent. GDP growth has averaged a lackluster 2.1 per cent in the 7½ years since the recession ended, a point that Trump repeatedly brought up during the campaign.

- With AP Inputs