

Flash Economics

14 June 2018 - 687

Growth will slow down in the United States

Currently, everybody seems optimistic about the growth outlook for the United States: surveys remain positive, job creation is strong. But it is certain that the United States will return to full employment: with a 3.8% unemployment rate and without an upswing in the participation rate, unemployment cannot be very far from structural unemployment.

Accordingly, US growth prospects will probably be revised downwards in the second half of 2018, leading to:

- A fall in equity markets;
- A fall in expected short-term interest rates and in long-term interest rates;
- Depreciation of the dollar;
- Return of capital flows to emerging countries;
- Downturn in cyclical commodity prices.

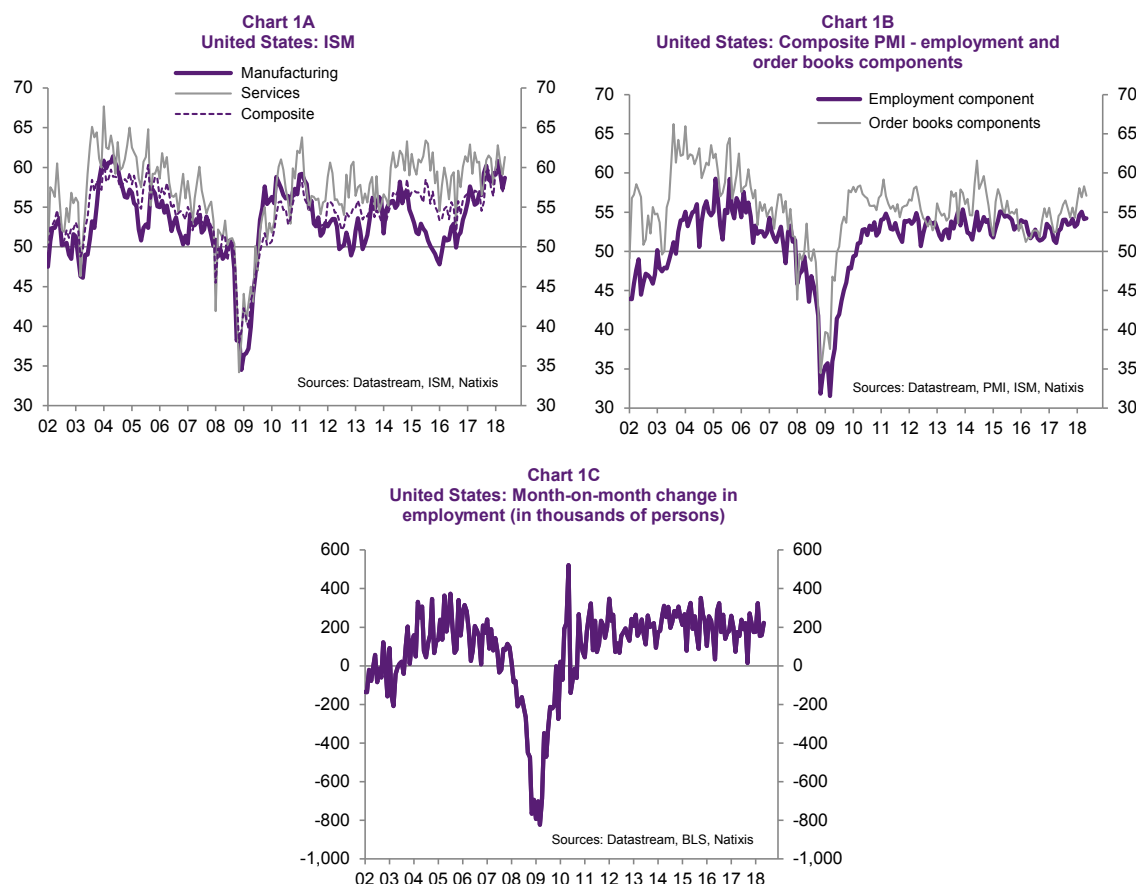
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Currently, everybody seems optimistic about US growth

We are now seeing in the United States:

- A high level of cyclical surveys (Charts 1A and B);
- Continued strong job creation (Chart 1C).



This sends the message that growth in the United States will remain strong, which is what, for example, financial sector economists believe (Table 1).

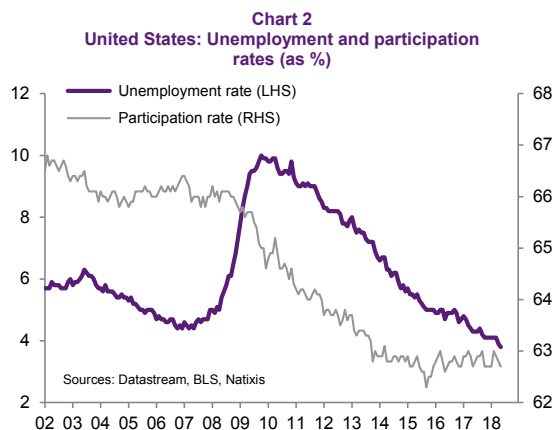
Table 1: United States: Real GDP growth forecasts (as % per year)

	Consensus Forecast
2017	2.3
2018	2.8
2019	2.6

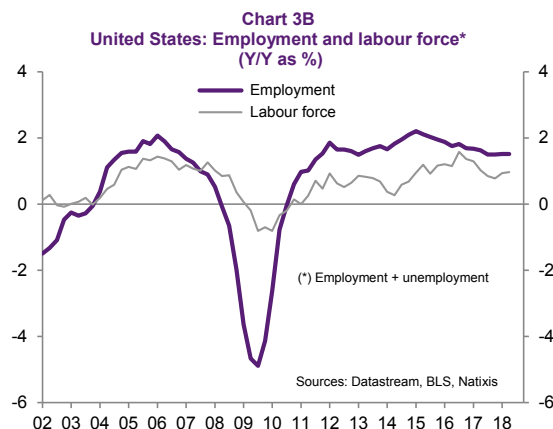
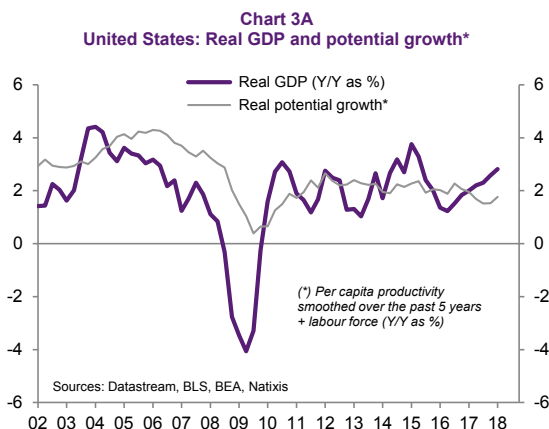
Sources: IMF, OECD, Consensus Forecast, Natixis

But it is certain that the United States will return to full employment

With an unemployment rate of 3.8% and a stable participation rate (Chart 2), the US unemployment rate cannot possibly be far from the structural unemployment rate.



There may be some uncertainty surrounding the level of the structural unemployment rate (3.8% - 3.7% - 3.6%?), but it is not very far away. This means that in a few months, **US growth will slow down to return to the level of potential growth (Chart 3A)**, and job creation will slow down and return to the labour force growth rate (**Chart 3B**).



What will happen when the US growth outlook is revised downwards?

The above implies that **the US growth outlook will quite soon be revised downwards**, while it is very positive now.

This will lead to:

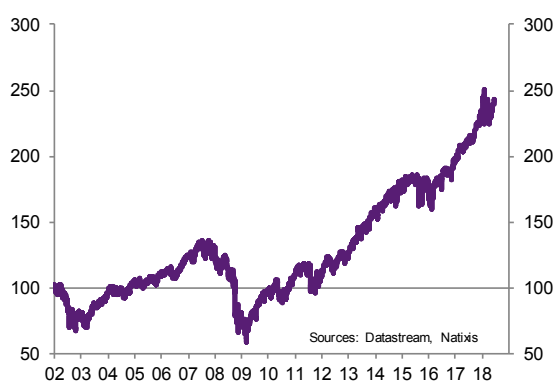
- (1) **A downward revision of earnings per share forecasts (Table 2) and equity market indices (Chart 4);**

Table 2: Earnings per share (consensus, as % per year)

Year	S&P
2017	11.8
2018	19.6
2019	10.4
2020	8.6

Sources: Datastream, Natixis

Chart 4
S&P stock market index (2002:1 = 100)



(2) A fall in expected short-term interest rates (Charts 5A and B) and in long-term interest rates (Chart 5C);

Chart 5A
United States: Fed Funds futures contracts

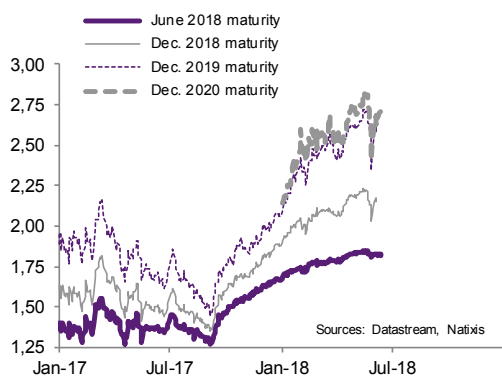


Chart 5B
United States: Interest rate on 2-year Treasuries (as %)

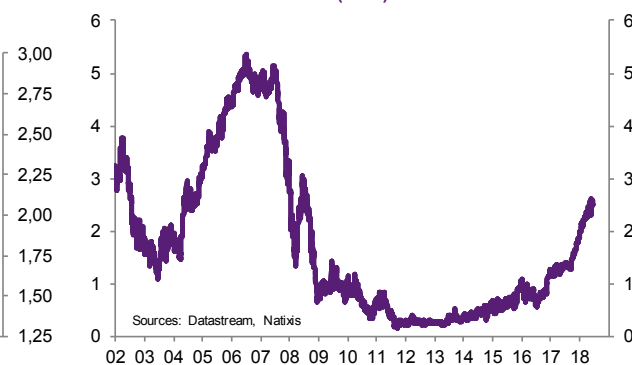
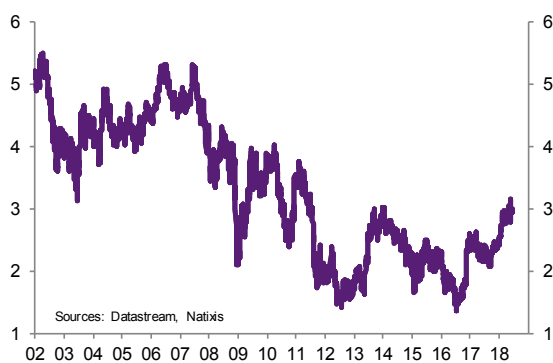
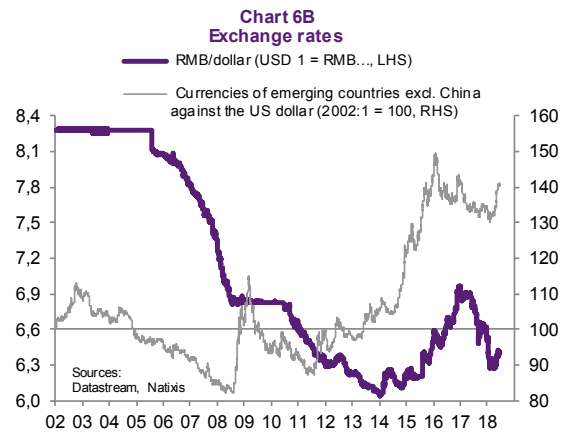
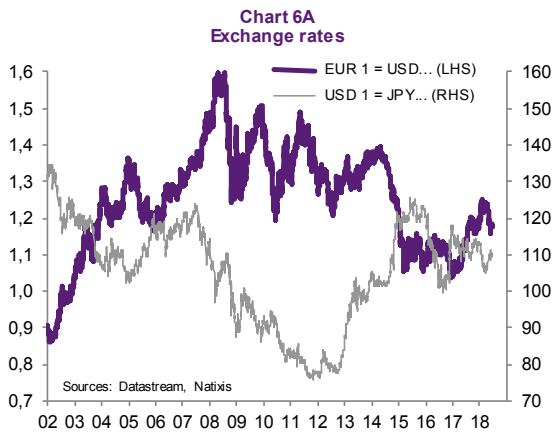


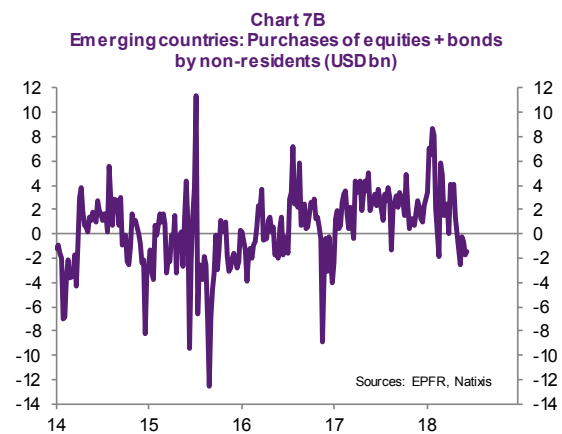
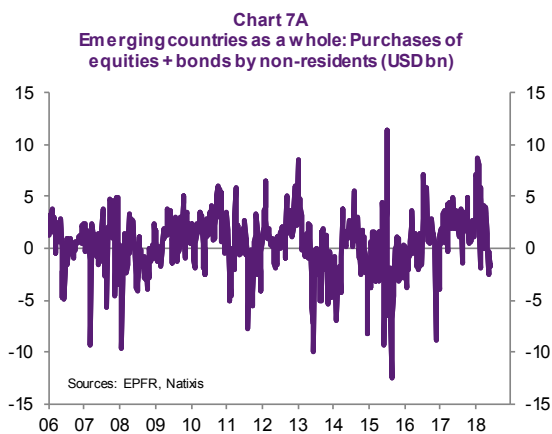
Chart 5C
United States: Interest rate on 10-year Treasuries (as %)



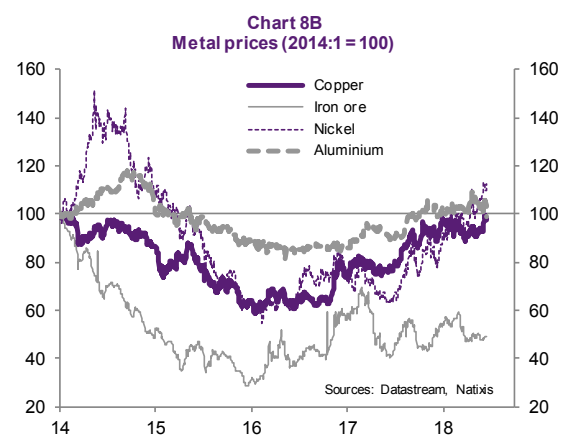
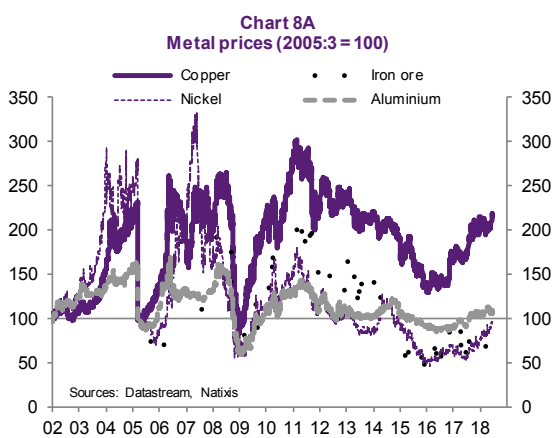
(3) Due to the decline in the growth outlook and in expected interest rates, a depreciation of the dollar (Charts 6A and B), i.e. the opposite of the recent move;



(4) A return of capital flows to emerging countries (Charts 7A and B), given the lower growth outlook and the lower interest rates in the United States;



(5) A downturn in cyclical commodity prices, such as metals (Charts 8A and B), which in the spring of 2018 have been underpinned by the prospect of vigorous growth in the United States.



Conclusion: A reversal of the growth outlook for the United States during 2018

In the first half of 2018, expectations for US growth have been strong, given the inevitable return to full employment, and the US growth outlook will gradually become **lower**. This reversal of growth expectations for the United States will have the expected effects on all financial markets (equities, interest rates, exchange rates, emerging countries, commodities).

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