US Economic Growth 2012

- US 2012 Q4 growth was -0.1% which surprised most analysts who expected at least slow to moderate growth. While disappointing, this is no cause for alarm.
- Inventory draw downs shaved 1.3% off GDP growth. Worries about the fiscal cliff in the 4th quarter of 2012 tempered business expectations and investment.
- Defense spending and government cutbacks accounted for a further 1.3% shortfall in growth. The rollback from 2 major areas of conflict and the need to reduce government debt will only reinforce this trend.
- Seasonal weather effects such as Hurricane Sandy on the Eastern Seaboard also detracted from growth.
- Without the decline in government spending and inventory destocking, GDP growth would have been a healthy +2.5%, above the post crisis long term equilibrium rate of circa 2%.
- On the positive side consumption and business investment remain robust. Consumption growth has accelerated to 2.2% helped by increased household after tax income. Household’s debt service, that is, debt payments as a percentage of disposal income has fallen sharply from 14% in 2007 to 10.6% today on the back of lower interest rates and debt repayment. Debt outstanding to personal income has also fallen.
- Employment appears to be recovering albeit at a glacial pace. US productivity is improving.
- The housing market continues a steady recovery. House building grew at over 15% accelerating from 13.5% in the prior quarter. The November reading of the Case Shiller 20 City home index accelerated to a 5.5% increase in November from a prior 4.2% increase in October.

And those are the numbers. More importantly the US economy is evolving. Prior to the outsourcing era, the US generated intellectual property, manufactured and consumed. When speed limits were touched a new model evolved whereby manufacturing was outsourced providing increased capacity and a higher speed limit (or a lower NAIRU). Emerging market production costs have risen to the extent that, including freight costs and non financial benefits, it has become more economical to produce domestically. This is a trend that has only just begun but is expected to gain momentum. This is a boon to the US economy as it continues to be the leading generator of intellectual property, it will now manufacture and it will not only consume but export. The scope for exporting, if only to reverse current account imbalances is substantial and is highly positive for large swathes of the US economy.

In terms of trade expression, whereas we previously used US exporters in the areas of capital goods and technology and other technologically advanced industries to capture emerging market infrastructure and investment growth, we expect to capture emerging market consumption growth through a wider array of industries with strong brands and intellectual property. The range of trade expressions among US equities will increase.

Take some caution though as these are long term trends. In the shorter term, GDP numbers will come in weak because of government rebalancing its fiscal position and slower net debt creation. US companies, however, are global companies providing global trade expressions in a deep, liquid market.