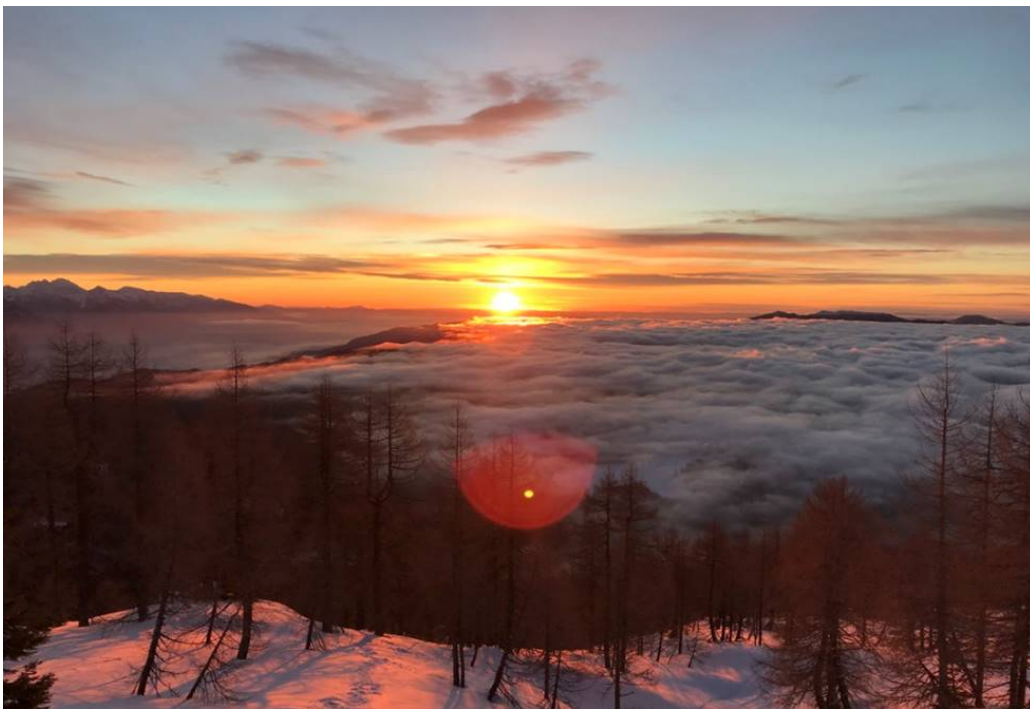


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US economy: the afterglow of fiscal stimulus



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The Republican fiscal stimulus program, which included tax cuts in the proximity of \$1.5 trillion dollars, was a bumper shot of adrenaline for the US economy, the effects of which are still circulating. Since our last US macro outlook for Paperjam, entitled 'American muscle', the US economy has kept flexing, with second quarter GDP growth tallying in at 4.2% - the best reading in almost four years.

Growth is being spurred on by American shoppers, with consumer spending accounting for two-thirds of all economic activity in the US. This summer, American consumers are exhibiting their highest confidence levels in 18 years. At the end of July, the US savings rate from 2013 to 2017, was revised upwards from 5% to 7% - news which may have helped allay some economists' concerns that consumers were becoming squeezed and that they would have to cut back spending in order to put more money aside. If more confident consumers begin to loosen their purse strings, corporate America's collective bottom should continue to expand.

It seems that thus far, even the protectionist push from the White House has not been detrimental America's manufacturing sector. In August, the ISM manufacturing index surged to a 14-year high (61.3). Although it can be said that fiscal stimulus is boosting demand, the unusual strength of the ISM index suggests that Trump's protectionist policies are not having a significant negative impact and may even be providing a boost to manufacturers in the short-term. Albeit, this is not to say that there won't be negative side effects further down the line – already, the US trade deficit with Beijing has reached the highest level on record, with US exports to China falling 8.2% in July.

But taking a broader look at corporate America, second quarter earnings season demonstrated that business activity is still very strong. Earnings growth on the S&P 500 index came in at 25.5% in Q2 –the highest figure since Q3 2010 (34.1%) whilst sales growth was 9.5%. Following the blockbuster earnings season, US indices have skipped from new high to new high. Now, two US listed companies – Apple and Amazon – have a market capitalisation of \$1 trillion – to put that in perspective, only 16 countries have a national GDP above \$1 trillion.

Though fundamentals confirm the strength of the US economy for time being, the spectrum of possible outcomes for the future has grown wider – on one hand, the Fed could be too cautious, allowing the economy (and inflation) to overheat, and on the other hand, there is the risk that it chokes growth by hiking too aggressively. At the moment, two more rate hikes are pencilled for 2018, bringing the total for the year to four. However, some critics say that the Fed is behind the curve and that it is still too accommodative, citing the abundance of liquidity in the system. Another risk is that the US-Sino trade spat escalates into a full-blown trade war. As the National Association of Manufacturers in the US states - 'No one wins in a trade war' - and it is unlikely that either side would come out unscathed.

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