



US

US economic sentiment soars after tax reform and strong jobs growth

15 March 2018

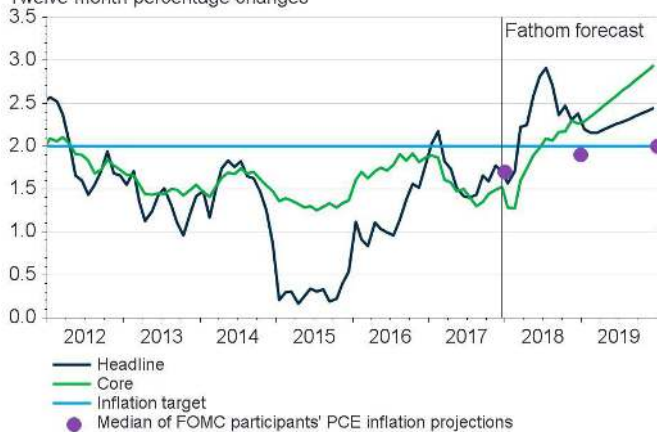
Brian Davidson, CFA



- Our US Economic Sentiment Indicator (ESI) climbed to a 14-year high of 6.7% in February
- This contrasts with both our ESI for the euro area, which dipped last month, albeit from a very high level, and our UK ESI, which is far weaker
- The decision to slap tariffs on US steel and aluminium imports was announced on the last day of the month and is therefore highly unlikely to have affected the ESI readings for February
- Yesterday's US retail sales report showed a small dip in sales last month, driven by falling gasoline and car sales, but even excluding these two volatile components, retail sales growth has slowed so far in Q1
- The upshot is that there is likely to be a widening divergence between our US ESI and actual US GDP growth in Q1; accordingly we have pencilled in annualised GDP growth of 2.6% for the first quarter
- This is not inconsistent with our forecast that the economy will expand by 3.2% in 2018; after all, GDP growth is typically a lot lower in the first quarter of the calendar year than in other quarters, due to inadequate seasonal adjustment of the official data

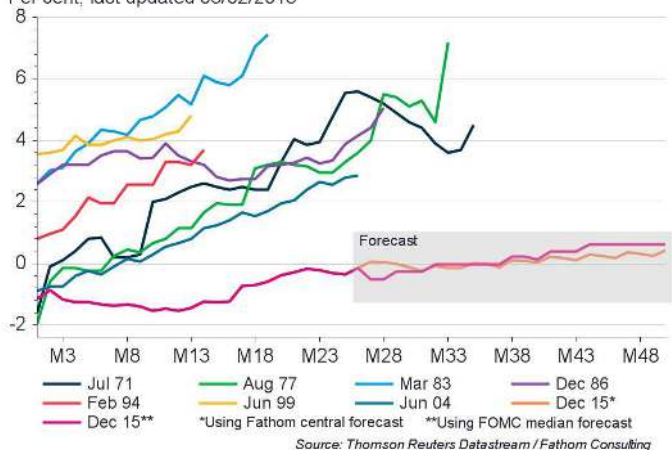
US PCE inflation

Twelve-month percentage changes



US real fed funds rate

Per cent, last updated 08/02/2018





US Economic Sentiment Indicator



Fathom Consulting
47 Beviden Street
London
N1 6BH
Tel: +44 (0)20 7796 9561



Contact information
brian.davidson@fathom-consulting.com
0203 879 9813
www.fathom-consulting.com

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