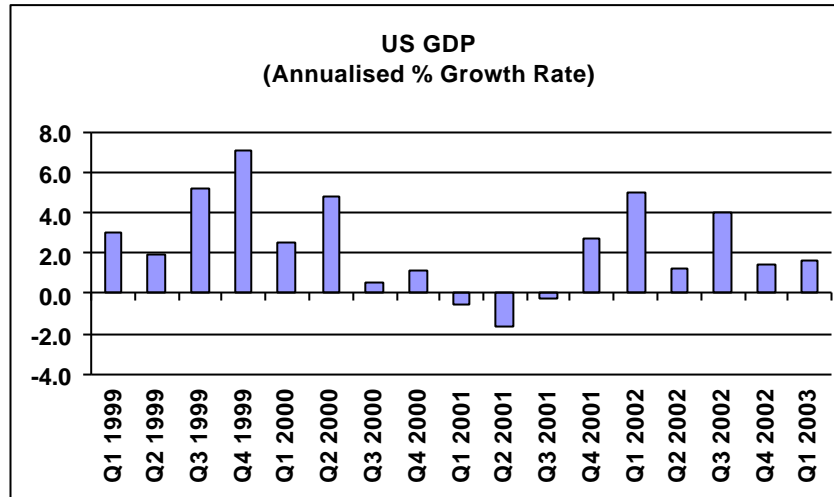


## US Growth Stays Below Trend



The US economy grew by an annualised 1.6% in the first quarter of the year. This was below expectations and only marginally better than the Q4's 1.4% growth rate. With the exception of the housing market, all major components of the economy were subdued. A sharp slowdown in growth in fixed investment was concentrated in a contraction in non-residential or business investment. Consumer spending slowed from 1.7% in Q4 to 1.4% and there was a sharp fall off in import demand, from +7.4% in Q4 to -7.9%. The contraction in imports, however, ensured that the net trade position made a strong contribution to growth. Despite weak growth, inflation moved higher over the period.

There is little doubt that the war with Iraq has damaged confidence and weakened economic activity. Thus, it would be surprising if economic indicators do not improve in the coming months, especially confidence and survey data, now that the war is effectively over. Indeed, consumer confidence data for early April are already showing signs of improvement, although it may take a couple of months for economic activity to strengthen. Also, the trend in the labour market will be important for consumer confidence. Thus, although some pick-up is likely, growth will remain below trend in Q2.

GDP growth is expected to average 1.5-2.0% during H1 2003. Growth should be stronger in H2 2003, with geopolitical tensions easing and given the sharp drop in oil prices. Consumer and business confidence should recover, boosting overall economic activity. The ongoing correction of the late 1990s bubble imbalances, though, may still act as a restraint on activity. Nevertheless, GDP growth could rise to 3-4% in H2 2003, and average 2.3% for the year.

**Geraldine Concagh**  
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