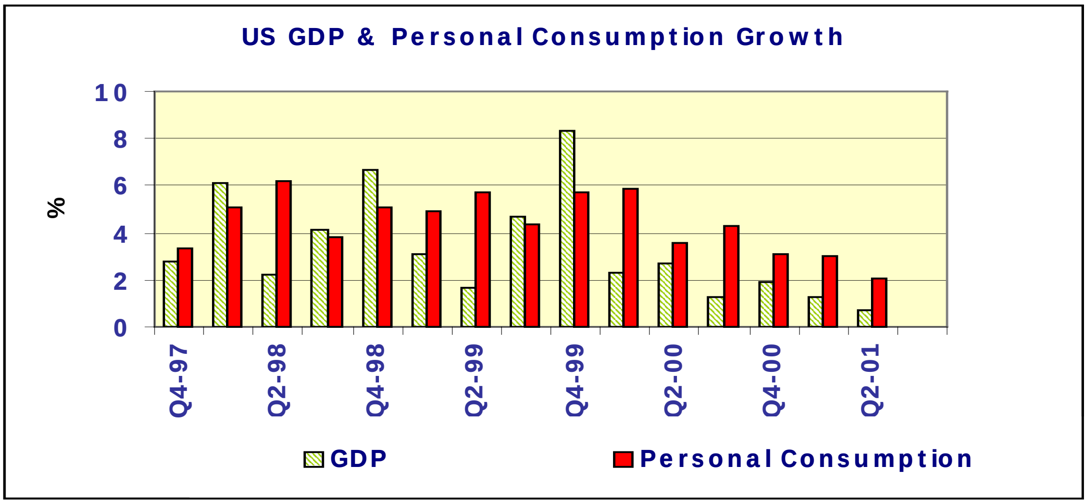
**AIB Group Treasury**
**Economic Services Unit**

## US Economy Weakens Further in Q2




| | Q2'01 | Q1 '01 | Q4-'00 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|
| **GDP** | 0.7 | 1.3 | 1.9 | 4.1 | 4.1 | 4.3 |
| **Consumer Spending** | 2.1 | 3.0 | 3.1 | 4.8 | 5.0 | 4.8 |
| **Business Investment** | -13.6 | -0.2 | 1.0 | 9.9 | 8.2 | 12.5 |
| **Housing Investment** | 7.4 | 8.5 | -1.1 | 0.8 | 6.7 | 8.0 |
| **Exports** | -9.9 | -1.2 | -4.0 | 9.5 | 3.2 | 2.1 |
| **Imports** | -6.7 | -5.0 | -0.5 | 13.4 | 10.5 | 11.8 |
| **Government Purchases** | 5.5 | 5.3 | 3.3 | 2.7 | 3.3 | 1.9 |
| **Inventory Change ($US bln)** | -26.9 | -27.1 | 42.8 | 50.6 | 62.1 | 76.7 |

Growth in the US economy slowed even further in Q2 with business investment and exports tumbling. According to preliminary estimates the economy grew by just 0.7% in the three months to June, down from an upwardly revised 1.3% growth rate in the first three months of 2001.

The major constraints on the economy were business spending which fell a staggering 13.6%, continued cutbacks in inventory stockpiles, and further deterioration in the trade balance. The slump in IT equipment buying intensified sharply, with 8% declines for both computer and communications equipment categories. The slowdown in the global economy was reflected in exports, which fell 9.9%. However, a 6.7% drop in imports lessened the net trade impact. Once again the consumer supported the economy. Spending rose 2.1%, primarily boosted by spending on home furnishings and equipment. Purchases of gasoline and other energy products were lower, as high prices forced cutbacks. As the economy cools there is little sign of inflation pressures. The GDP deflator (closely watched by Alan Greenspan) fell 1% to 2.3%. Revised GDP rates for 1998-2000 were also released. The 2000 growth rate was revised down from 5.0% to 4.1%.

The hope continues to be that the monetary easing implemented to date (2.75% in total) and that which is to come, along with the tax rebates, will kick-start the economy before the end of the year. However, this GDP report does little to raise hopes of a near-term recovery. Rates are expected to be cut by a further 0.25% at the Fed meeting in August but if data over coming weeks show further weakness markets will begin to seriously price in a rate cut at October's meeting.

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**July 27, 2001**