US Macroeconomics

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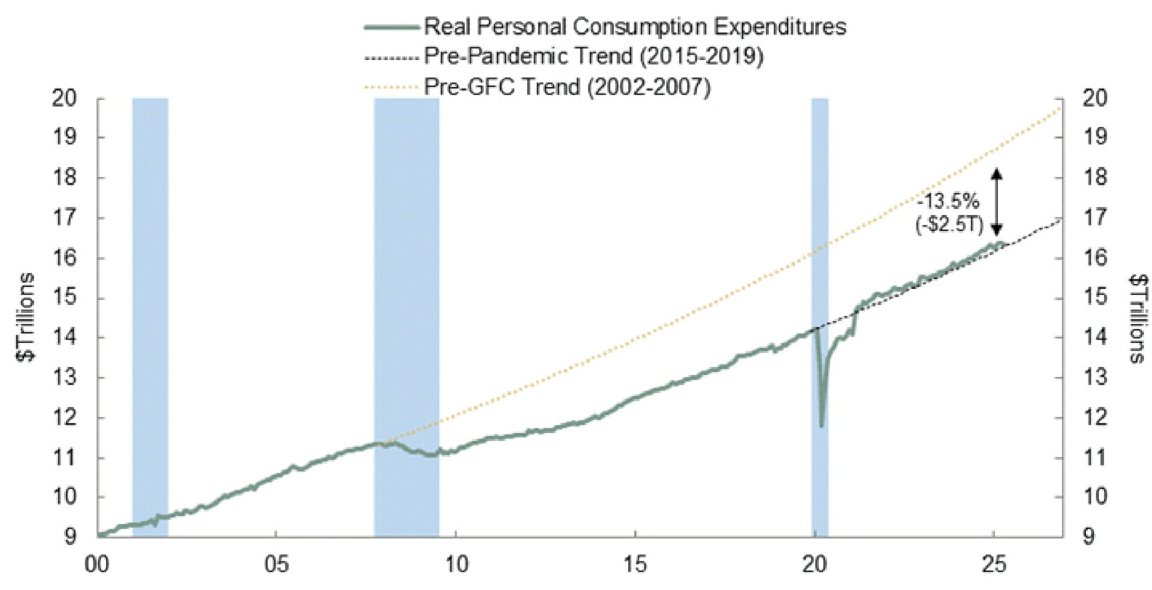
## The Unstoppable US Growth Story: Q2 GDP Preview and Outlook

Q2 Preview: We remain ***optimistic on US growth prospects***. We forecast ***2.6% QoQar for Q2 headline GDP***, ***1.6% for PCE***, and 2.3% and 2.2% for the GDP and core PCE deflators. Where Q1 provided a somewhat soft headline growth figure (-0.5%) which was offset by a robust 1.9% increase in real final sales to private domestic purchasers, Q2 is likely to be the inverse where strong headline growth is likely to be weighed down by soft investment from the residential construction sector.

Strong Outlook: ***Inflation is*** in the process of ***slowing*** back to the Fed's 2% target, while the Federal government is running a near ***7% of GDP budget deficit*** (6.7% in May). ***Rising stock prices*** continue to provide a substantial boost for consumers and businesses alike. ***Consumers are spending right in line with their pre-Covid pace***, albeit far below their pre-GFC pace (shown below). Corporate debt levels and interest payments are ultra-low at just 46% of GDP. Although *household* debt is near global averages at 68% of GDP, debt servicing costs are manageable as the stock of debt is largely locked in at ultra-low pandemic rates. Further, continued advances and the adoption of ***artificial intelligence*** and machine learning (AI and ML) ***will likely boost labor productivity*** over the medium to long run. Early indications substantiate this expectation. This will drive economic outperformance for services-led economies like the US. Last, the codification of a highly competitive 21% corporate tax rate removes a key source of business uncertainty, while other stimulative tax cutting measures in the OBBB will also be growth accretive. We are forecasting 2.1% YoY GDP growth for 2025 and 3.1% in 2026.

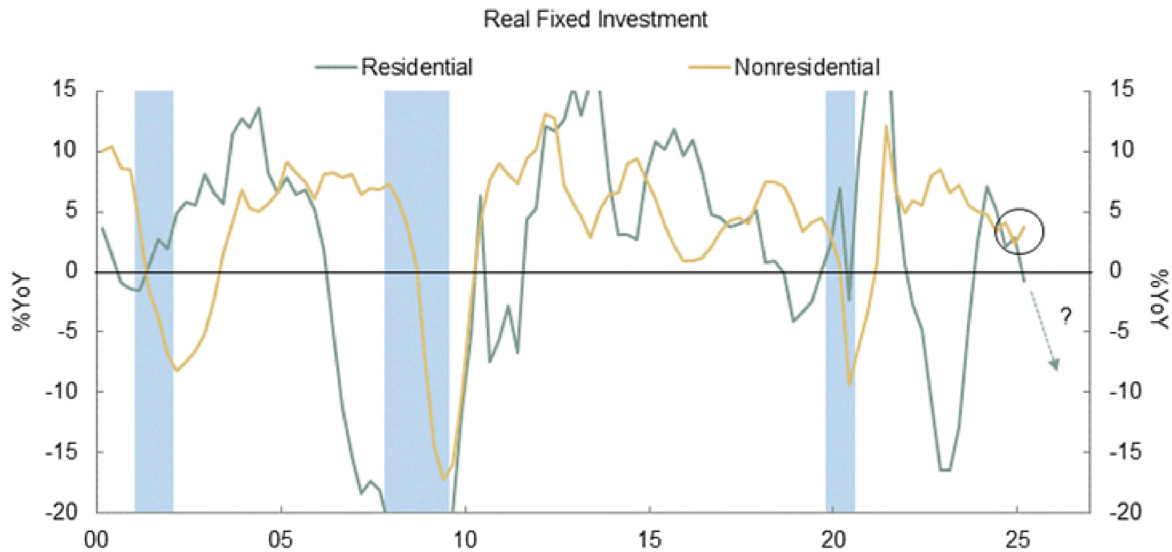
This does not come without risks, however. Our primary risks include the slowing housing and labor markets, and the risk of financial market turmoil.

***Consumption Right on Pre-Covid Trend…***



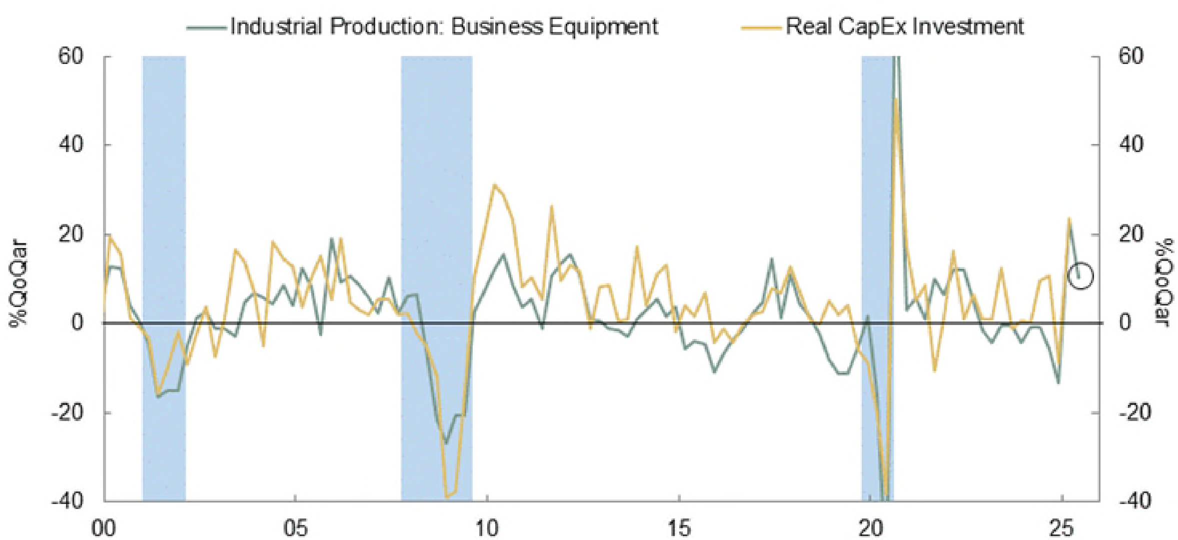

Source: BEA, Haver, SMBC Nikko

### *Widening Gulf between Residential and Nonresidential Investment…*




Source: BEA, Haver, SMBC Nikko

### *Partially Due to Continued Strength in CapEx…*




Source: Federal Reserve, BEA, Haver, SMBC Nikko

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