ISI Emerging Markets Group

EMIS CEIC

An ISI Emerging Markets Report

US Economy in a Snapshot Q2 2019

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Executive Summary

Key Highlights

- The US economy expanded by close to 3.2% in Q1 2019, up 0.2 pp from the previous quarter, underpinned by strong internal consumption and stable investment
- Fed kept the key interest rate at 2.50% since the beginning of the year but is preparing for rate cuts in support of the economy amid the approaching global slowdown.
- Fiscal deficit remains high and government debt continued to accumulate gradually but investors seem to show little doubts in the county's ability to service its debt.
- Inflation remains low, which justifies rate cuts in the near term.
- Foreign trade tariffs did not affect significantly the balance, amount and sector composition of US external trade. The US runs foreign trade deficits with all of its major trading partners.

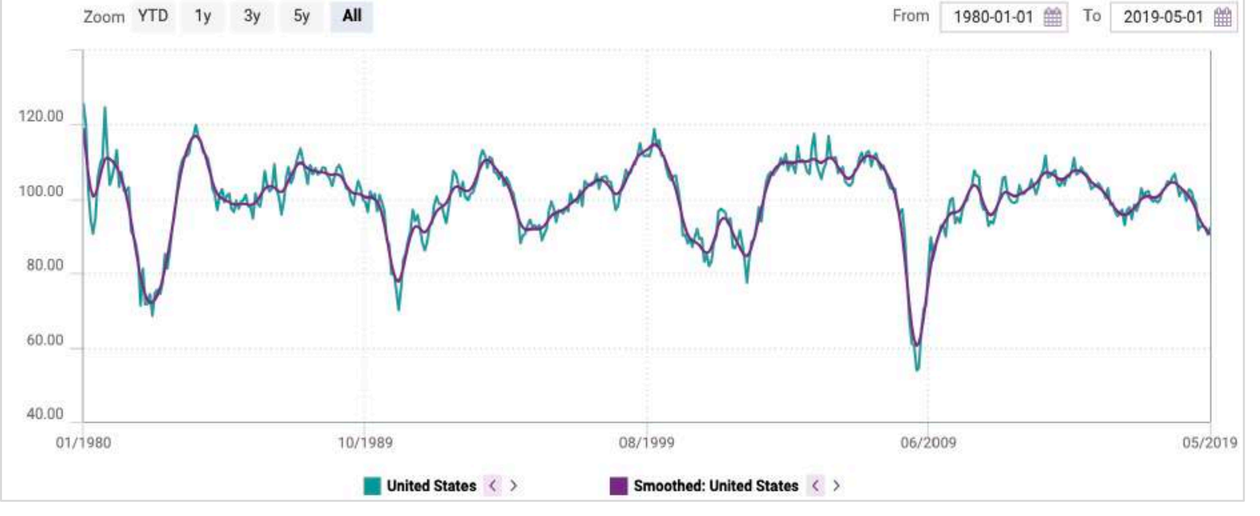
Economic Outlook

Amid talks of slowing global growth, the US economy recorded another strong quarter in Q1 2019 in one of the last stages of the current business cycle, backed by strong consumption and both direct and portfolio investments. Retail sales and consumer sentiment, the main drivers of the US economy, showed continued strength. The existing growth rate differential with the rest of the developed world led to investors once again pumping billions of dollars in US debt and equity, leaving little doubt in the economy's ability to service its growing private and public debt. Over the coming months growth and economic activity is expected to stabilize at more modest levels.

Overall expectations point to a moderate slowdown somewhere at the end of 2019 or 2020. Fed projects a lower growth rate of 2.1% for 2019. The IMF has also lowered its growth expectations, with annual GDP growth rates projected at 2.4% and 1.7% in 2019 and 2020 respectively, backed by steady internal consumption and fixed investment, though at lower levels compared to 2018. Private consumption is forecast to grow by 2.4% and 2% in 2019 and 2020, respectively, while government consumption is expected to grow by 1.6% and 1.2%. Gross investment in 2019 is projected to be higher than in 2018, at 21.56% of GDP, and remain close to these levels in 2020. Unemployment is likely to bottom at some point over the next 18 months and increase thereafter. Inflation is forecast to be higher than in 2018 at the end of 2019 and the first quarter of next year and remain within the 2% target level after that.

Risks to the forecast are economic as well as political. The smoothed CEIC Leading Indicator fell to 90.6 in May, its lowest value since the 2007-2009 financial crisis, signifying that despite the somewhat positive performance, the US economy could face serious challenges in the near months. Manufacturing PMI has been declining for a year now, falling to 50.5 and close to its threshold value of 50. In addition to this, according to the Fed's recession probability indicator's one-year ahead prognosis there is a 29.7% chance of a recession in May 2020. A major factor that might eventually disrupt the US economy would be the growing uncertainty over the US-China trade relations. Stock markets also start to appear a little overvalued and a period of higher volatility might be expected.

Leading Economic Index (Long-term Trend=100)



Purchasing Managers' Index

Recession Probability

Source: CEIC Data

Summary

Real gross domestic product (GDP) expanded by close to 3.2% in Q1 2019, up 0.2 pp from the previous quarter. Growth was again underpinned by strong private and government consumption, as well as stable private investment. The largest growth in GVA was registered in the scientific and technology services industry (7.2%), wholesale trade (6.7%) and professional and business services (6.4%). **The industrial production index (IPI),** measuring real output in manufacturing, has indicated small increases in industrial activity, ranging from 0.7% to 3% in all months since the beginning of 2019.

Headline inflation, measured by the **Consumer Price Index (CPI)**, has trended downward in the second half of 2018 and reached its lowest point over the last two years in February at 1.5%. Inflation then increased to the Fed desired level of 2% in March, before declining again to 1.8% in April. Core CPI, which excludes the very volatile food and energy, has generally followed the same pattern. Core CPI readings since the beginning of 2019 have been the highest in transport, medical care and housing.

Fed has kept its **overnight lending rate**, also known as Fed funds rate at 2.50% since the beginning of the year. In the last several months the economy has been operating at full employment and relatively low inflation levels, which supported the arguments for lowering interest rates as early as July. The Fed is not yet fully committed to a July rate cut, but two to three downward rates moves by year-end appear more likely now after the latest Fed meeting.

Fiscal deficit continued growing and reached 3.8% in Q1 2019, on the back once again of high medicare, social security and national defence expenditures. Public debt continued to accumulate gradually and in May, US government debt stood at USD 22tn and was a little more than 104% of GDP. Treasury yields, however, are close to record low rates, suggesting that investors trust the US government's ability to service its debts.

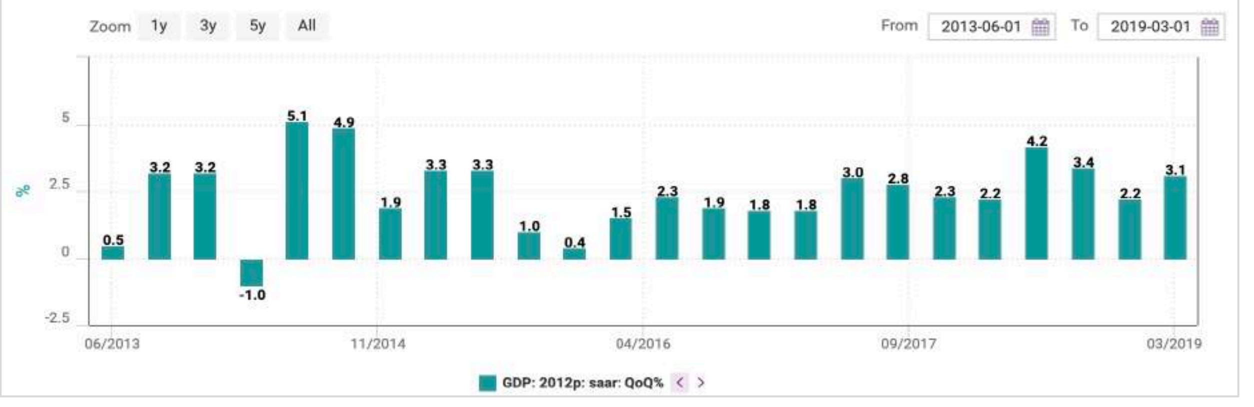
Trade deficit increased slightly in April to USD 73.9bn, due to higher imports and lower exports. Tariffs did not have a significant impact on the balance, the amount and sector composition of the US **foreign trade.** The seasonally-adjusted total trade deficit stood at USD 213.6bn in Q1 2019, little changed relative to the previous quarter. The US run deficits with China, Japan, Germany and Mexico, which are its major trading partners.

US Economy: Statistics at a Glance

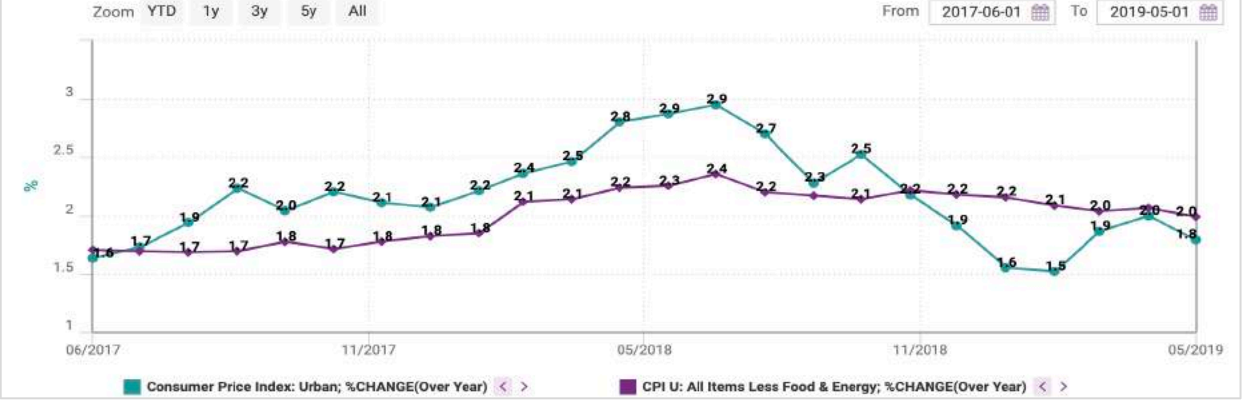
	Unit	05.2019	04.2019	03.2019	02.2019	01.2019	12.2018
Real GDP: YoY: sa	%			3,20			2,97
Industrial Production Index: YoY	%	1,87	0,71	2,20	2,71	3,27	3,31
House Prices: YoY	%			5,83			6,48
Consolidated Fiscal Balance: % of Nominal GDP	%			-4,19			-4,25
Government Debt: USD mn	USD mn			22 027 880,00			21 974 096,00
Unemployment Rate: sa	%	3,60	3,60	3,80	3,80	4,00	3,90
Monthly Earnings: USD: sa	USD	3 829,40	3 821,16	3 824,00	3 806,00	3 803,28	3 799,16
Employed Persons: sa	Person			156 748 000,00			156 945 000,00
Retail Sales: Value: YoY: sa	%	2,68	3,86	3,73	2,05	3,18	1,08
Motor Vehicles Sales	Unit	1 626 729,00	1 370 129,00	1 642 751,00	1 288 278,00	1 171 540,00	1 665 906,00
Consumer Price Index: YoY	%	1,79	2,00	1,86	1,52	1,55	1,91
Producer Price Index: YoY	%	1,81	2,16	2,17	1,91	1,92	2,64
Total Exports: YoY	%	-2,07	-2,12	-1,06	1,91	3,68	-1,39
Total Imports: YoY	%	1,86	1,75	-0,08	-0,68	0,62	3,33
Current Account Balance: % of Nominal GDP	%			-1,95			-2,84
Foreign Direct Investment: USD mn	USD mn			103 739,00			48 231,00
Direct Investment Abroad: USD mn	USD mn			65 408,00			-3 755,00
Foreign Portfolio Investment: USD mn	USD mn			-7 740,00			14 884,00
M2: YoY	%	4,14	3,86	3,79	3,98	4,11	3,71
Total Deposits: YoY	%	4,61	4,37	4,42	4,10	3,80	3,68
Total Loans: YoY	%	4,96	4,72	5,47	5,48	5,39	5,13
Household Debt: USD mn	USD mn			13 668 000,00			13 544 000,00
Policy Rate: Month End: Effective Federal Funds Rate	% pa	2,40	2,45	2,43	2,40	2,40	2,40
Electricity Generation	GWh		295 119,00	323 187,00	313 278,00	357 690,00	337 334,00
Manufacturing PMI: Headline: sa	NA	50,50	52,60	52,40	53,00	54,90	53,80
Services PMI: Headline: sa	NA	50,90	53,00	55,30	56,00	54,20	54,40

Source: CEIC Data

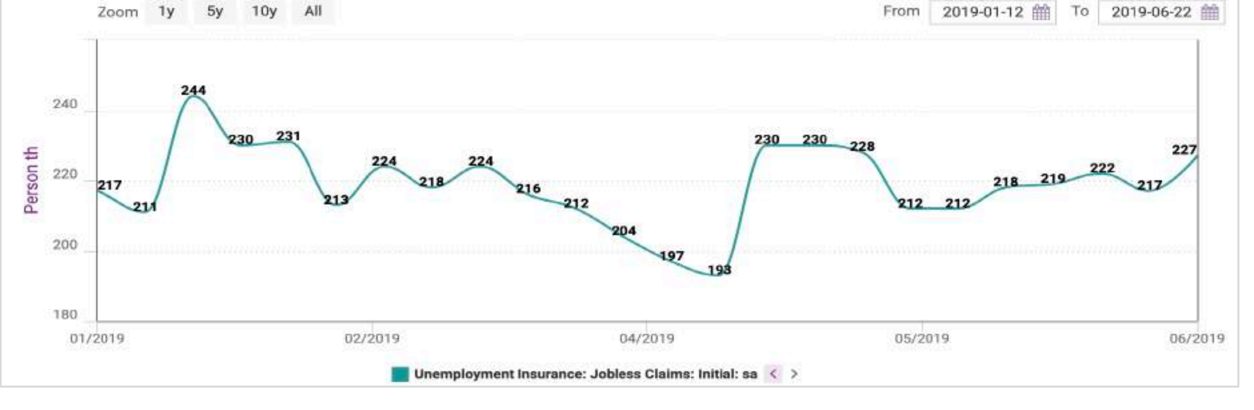
Real GDP Growth: QoQ



Headline & Core Inflation



Initial Jobless Claims



Source: CEIC Data

Real Sector

Real Sector

Real GDP increased by 3.18% y/y in the first quarter of 2019, compared to 2.97% in the previous quarter and 2.58% in the first quarter of 2018. The increase reflects upward revisions to personal consumption expenditures (PCE), gross private domestic investment, and change in private inventories, as well as government and private consumption. Net exports were up after an increase in exports and a slight drop in imports. The drop in imports could be partly explained by the increased uncertainty in US trade relations with a number of countries and the imposition of new tariffs. Nominal GDP in Q1 2019 stood at USD 21.1tn at a seasonally-adjusted annualized rate with PCE contributing to 67.6% of GDP total. PCE increased by 0.4% q/q, following an increase of services consumption and a slight drop in goods consumption q/q. The drop of goods consumption, which could be a consequence of new tariffs imposition, clearly shows that while tariffs might be suitable for reducing trade and current account deficits, they do not actually increase consumers' disposable income. Gross private domestic investment increased by 1.5% q/q due to upward revisions in both fixed investment and change in private inventories. The upward move is a sign that businesses still find investment opportunities and the economy is not substantially cooling. Government expenditure increased on both federal and state level.

The largest gross value added to the economy was generated by the finance and insurance sector, making up 22% of total GVA, followed by the business services and government sectors with 13.48% and 12.96%, respectively. Out of the major industries, the largest growth in GVA was registered in the scientific and technology services industry (7.2%), wholesale trade (6.7%), and professional and business services (6.4%). IPI has indicated small increases in industrial activity, ranging from 0.7% to 3% since the beginning of 2019. Industrial activity trended downward from January until April and recovered slightly in May.

Retail sales remained strong and trended upward since the beginning of the year, registering a 0.3% m/m increase in April. This increase reflects the growth in motor vehicles and parts, home furniture and food and beverage store sales, partly offset by a drop in electronics and appliance store sales. The Johnson Redbook Sales Index, which measures the weekly sales of about 9,000 large merchandise retailers across the US, grew by 5% y/y or more in the March-April period, showing the continuing strength of US retail sales. Both consumer sentiment and consumer expectations for the same period remained close to their average level since the beginning of the year.

In view of the relatively stable industrial activity and retail sales, the US economy continues to operate at levels close to full employment. Unemployment has trended downward since the beginning of the year, and stood at 3.6% in both April and May, which is its lowest level over the last 24 months. Weekly jobless claims in the 12 weeks to June remained close to their 18-month average. Average hourly earnings also kept their upward trend since the beginning of the year in line with the relatively strong economic performance amid full employment. These earnings' average monthly increases in the January-May period were between 0.1% and 0.2%, remaining slightly lower than last year's average. The average hourly earnings in April were the highest in the investment industry, followed by publishing.

Private housing units started increased strongly in the first five months of the year, compared to last years' end, reaching 118,700 units in May, although this can also be seen as a seasonal effect. Meanwhile, the upward trend in housing prices ended in Q1 2019, with median housing price down by 11.4% compared to Q4 2018. Median rent has remained stable, and a continuing fall in the price-to-rent ratio would indicate a forthcoming cooling of the economy.

Nominal GDP & Real GDP Growth

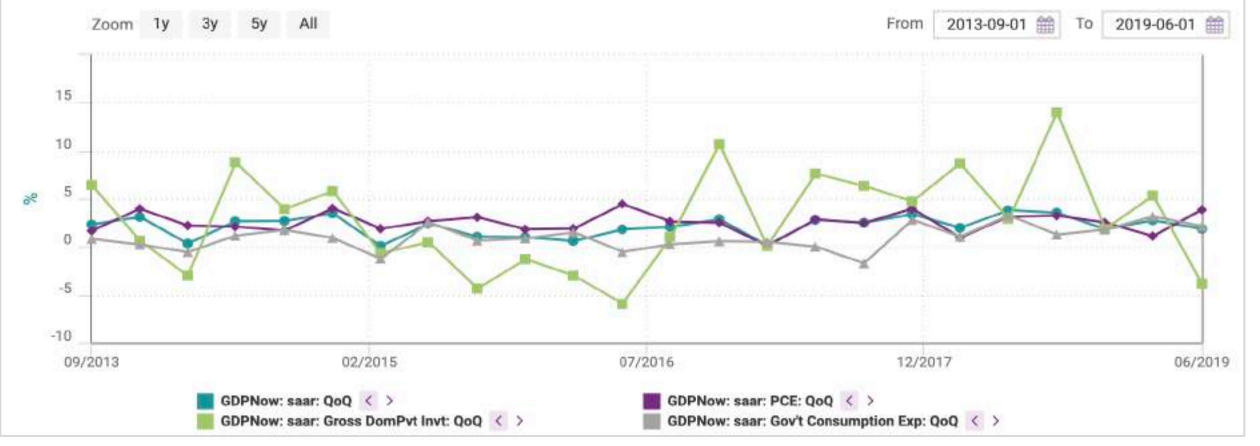
Source: CEIC Data

GDP by Expenditure: saar

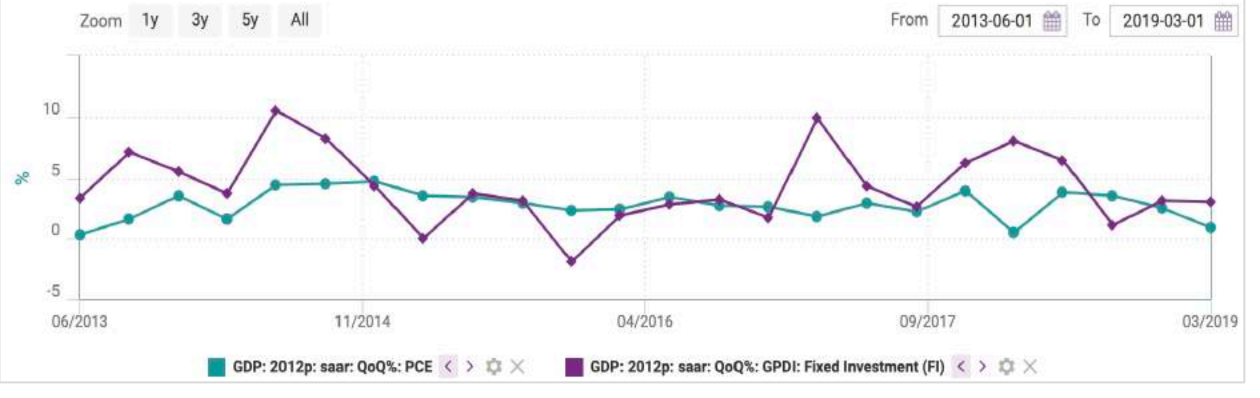
	Unit	03.2019	12.2018	09.2018	06.2018	03.2018	12.2017	09.2017
Gross Domestic Product: saar	USD bn	21 060,1	20 865,1	20 658,2	20 411,9	20 041,0	19 831,8	19 588,1
GDP: saar: Personal Consumption Expenditures	USD bn	14 238,6	14 188,4	14 050,5	13 875,6	13 679,6	13 579,2	13 359,1
GDP: saar: PCE: Services	USD bn	9 862,7	9 801,8	9 679,1	9 546,1	9 411,9	9 328,3	9 193,1
GDP: saar: PCE: Goods	USD bn	4 375,9	4 386,6	4 371,3	4 329,5	4 267,7	4 250,9	4 166,0
GDP: saar: Gross Private Domestic Investment (GPDI)	USD bn	3 823,3	3 766,3	3 710,7	3 579,5	3 543,8	3 441,4	3 413,9
GDP: saar: GPDI: Fixed Investment (FI)	USD bn	3 701,6	3 658,8	3 618,0	3 589,9	3 507,4	3 420,0	3 358,5
GDP: saar: GPDI: Change in Private Inventories	USD bn	121,7	107,5	92,7	-10,4	36,3	21,5	55,4
GDP: saar: Net Exports of Goods and Svcs (NE)	USD bn	-606,7	-658,9	-653,5	-549,8	-639,2	-607,9	-557,3
GDP: saar: NE: Exports	USD bn	2 552,0	2 540,6	2 538,6	2 568,7	2 477,4	2 432,0	2 358,3
GDP: saar: NE: Imports	USD bn	3 158,6	3 199,5	3 192,1	3 118,5	3 116,6	3 039,9	2 915,5
GDP: saar: Govt Consumption Expenditures & Gross Inv (GCI)	USD bn	3 604,8	3 569,4	3 550,5	3 506,6	3 456,8	3 419,1	3 372,3
GDP: saar: GCI: Consumption Expenditures	USD bn	2 889,4	2 880,9	2 864,0	2 831,0	2 797,0	2 765,9	2 732,1
GDP: saar: GCI: Gross Investment	USD bn	715,4	688,5	686,5	675,6	659,8	653,2	640,2
GDP: saar: GCI: Federal	USD bn	1 355,6	1 341,9	1 329,5	1 313,0	1 294,8	1 280,6	1 263,8
GDP: saar: GCI: Federal: Consumption Expenditures	USD bn	1 057,1	1 046,2	1 041,3	1 027,9	1 012,7	997,9	984,7
GDP: saar: GCI: Federal: Gross Investment	USD bn	298,4	295,8	288,2	285,1	282,2	282,7	279,1
GDP: saar: GCI: State and Local (SL)	USD bn	2 249,3	2 227,5	2 221,0	2 193,5	2 162,0	2 138,5	2 108,5
GDP: saar: GCI: SL: Consumption Expenditure	USD bn	1 832,3	1 834,8	1 822,8	1 803,1	1 784,4	1 768,0	1 747,5

Source: CEIC Data

GDPNow Forecast: QoQ Growth



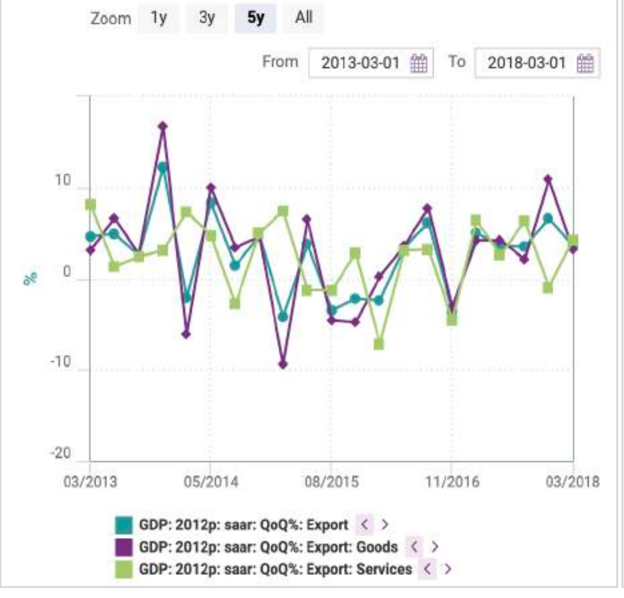
Personal Cons Expenditure & Private Domestic Fixed Investment (Real QoQ Growth)



Government Cons Expenditure & Gross Investment (Real QoQ Growth)

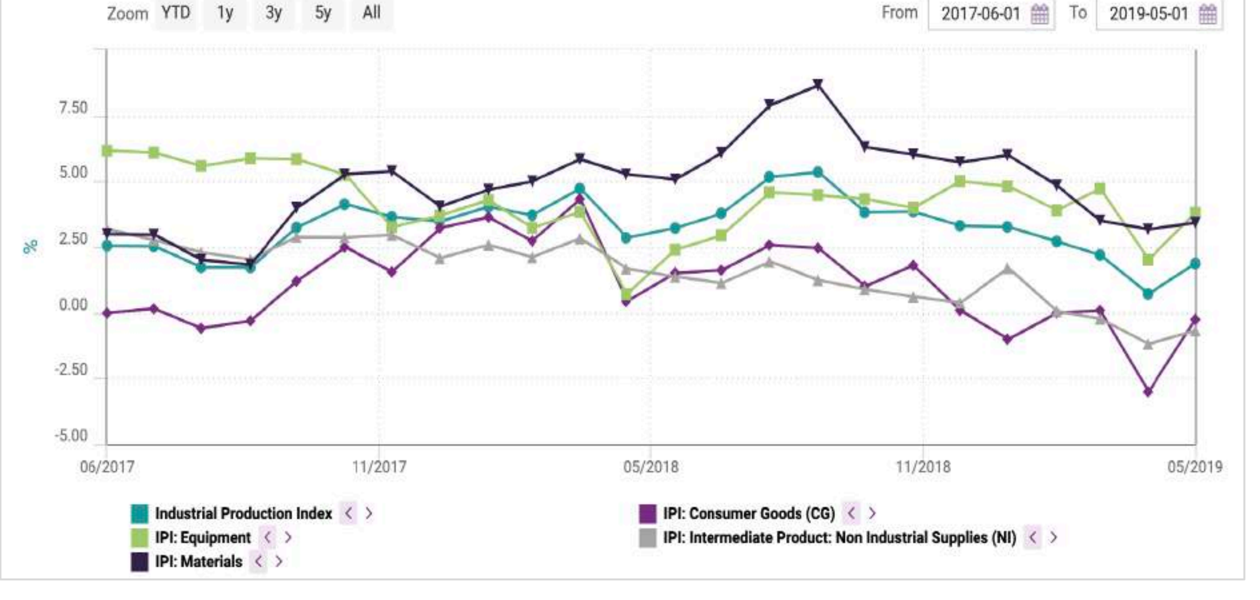
Source: CEIC Data

GDP: Exports of Goods & Services (Real QoQ Growth)



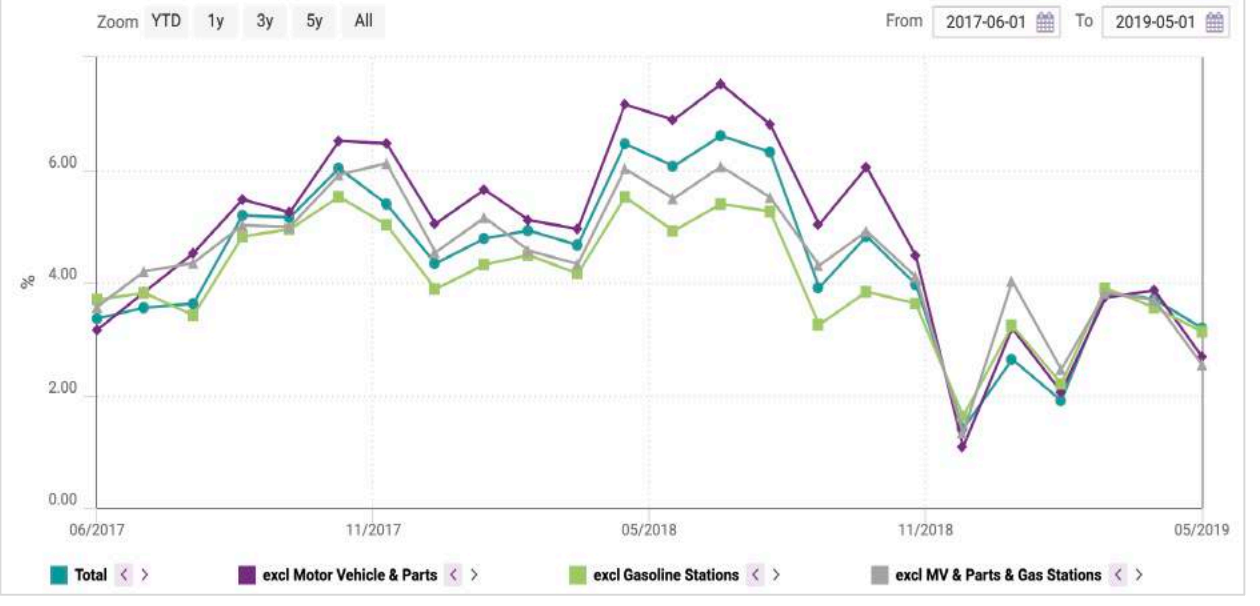
GDP: Imports of Goods & Services (Real QoQ Growth)

Industrial Production Index: YoY Growth

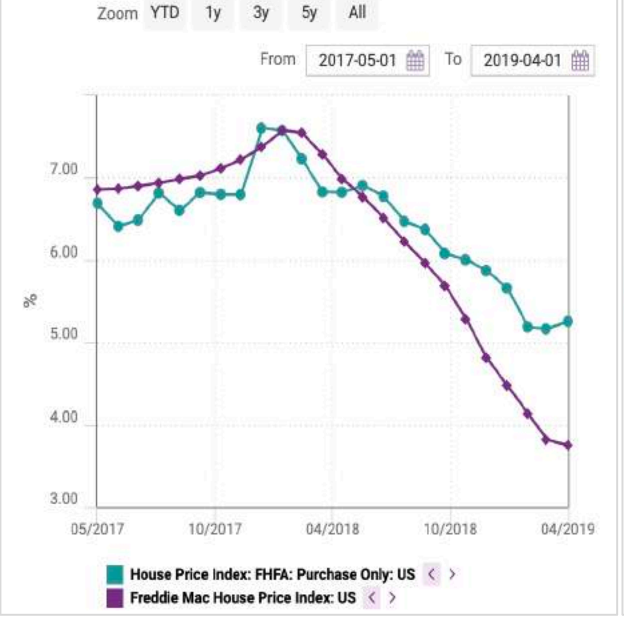


Source: CEIC Data

Retail Sales: YoY Growth



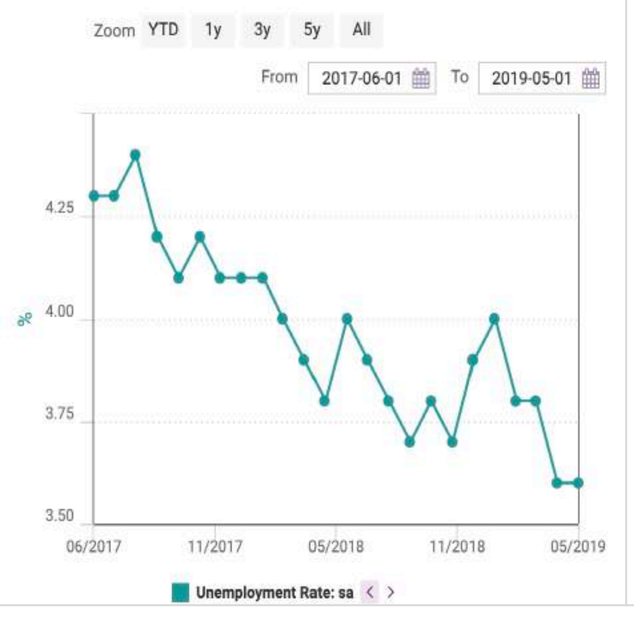
House Price Indices: YoY Growth



Private Housing Units started

Source: CEIC Data

Unemployment Rate



Employment to Population Ratio

Employment: Non Farm (MoM Growth)

Source: CEIC Data

Monetary & Financial Sector

Monetary & Financial Sector

Key inflation measures in Q1 2019 generally remain within the limits prescribed by the US neutral monetary policy. Headline inflation has trended downward in the second half of 2018 and reached its lowest point over the last two years in February at 1.5%. Inflation then increased to the Fed desired level of 2% in March, before declining again to 1.8% in April. Apart from energy prices, which are traditionally volatile, CPI readings since the beginning of 2019 have been the highest in transport, medical care and housing. Core CPI, which is a less volatile measure of inflation, has been gradually declining in the second half of 2018, and increasing the first three months of 2019 to reach 2% in April. PCE and inflation breakevens on 10-year Treasury Inflation Protected Securities (TIPS) have followed the inflation changes pattern. Returns on 5-year TIPS and 10-year TIPS are close to each other and remain below yields on the respective nominal treasuries, suggesting that investors expect inflation to remain relatively low. The Producer Price Index (PPI), which is an early indicator of inflation, also trended downward in the second half of 2018, saw an uptick in March 2019, and turned negative in April.

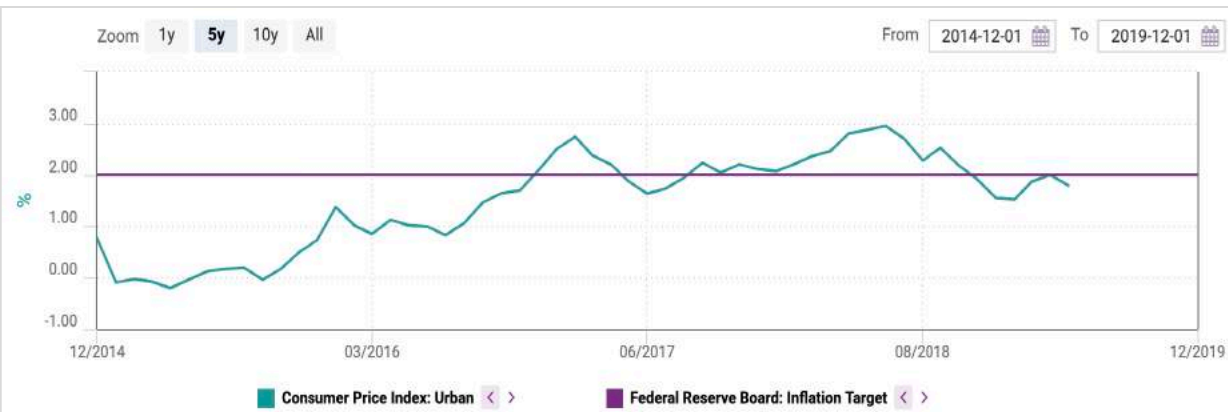
The Fed funds rate currently stands in the 2.25% - 2.50% range and has not changed in 2019, following five upward moves in 2018. Similarly, the prime lending rate has been at 5.50% since the beginning of the year, following an upward move from 5.25% in December 2018. Price indices show that inflation has remained within the Fed prescribed limits with the economy close to full employment and a decrease in federal funds rate could be undertaken in case of declining economic activity. The rate on one-year T-bills moved below the yields on shorter maturity bills in May, suggesting a higher probability of a downward rate move within the next 12 months. Latest discussions suggest a possible 0.25% cut still in July but the Fed is not fully committed to it yet.

The US dollar remains strong and the dollar index, which has trended upward since the beginning of 2018, now stands close to its five-year highest point reached in 2017. The US dollar is close to its two-year highest point against the pound and the euro. The growth differential between the US economy and other leading world economies over the last two years justified the strong dollar, though some very recent moves on the currency and commodity markets suggest we might see some weakening.

The monetary base has increased since the beginning of the year. Narrow money M1 was up by 1.1% and broader money M2 was up by 1.7% in May compared to December 2018. The increase was mainly due to higher checkable and savings deposits at banks. Considering the level of interest rates and the late stage of the cycle, a further increase of deposits could be expected. Total deposits stood at USD 17.2tn, up 2.9% y/y. Since the beginning of the year banks have continued to reduce their cash holdings and increase their securities-backed loans. Commercial, real estate and consumer loan portfolios have been increasing at a relatively slower pace. Borrowings at commercial banks have steadily decreased since the beginning of the year, probably in expectation of lower interest rates. Non-performing loans have continued to decrease in Q1 2019 and banks' balance sheets remain strong, suggesting that a serious banking crisis in case of a slowdown is unlikely.

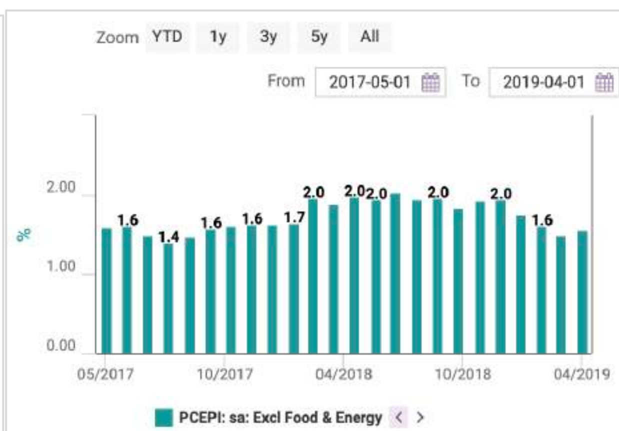
US stock market indices have continued to outperform their European and Asian counterparts since the beginning of the year, like in the last several years. Since the beginning of the year, as of June 21, S&P gained 17.67%, while Nasdaq Composite and Dow Jones were up by 21.05% and 14.54%, respectively. The stock market kept its upward momentum through January until the end of March but entered a correction in April and May, mainly affected by the growing anxiety related to US international trade relations with its major trading partners. Since the beginning of June, however, major indices have regained momentum and gained above 7%, mainly driven by the good economic outlook and the talks regarding a possible lowering of the effective Fed funds rate. S&P 500's best performing sectors for the last 12 months have been utilities, real estate and consumer staples. In the short-term perspective, stock indices are to be driven mainly by trade negotiation developments and Fed monetary decisions. The relatively high price/earnings ratios are a cause of concern as we might see a correction in case of a slowdown.

Consumer Inflation & Fed Inflation Target



Personal Consumption Expenditure: Price Index (YoY Growth)

Personal Consumption Expenditure: Price Index excl Food & Energy (YoY Growth)



Source: CEIC Data

CPI: Main Categories (YoY Growth)

	Unit	05.2019	04.2019	03.2019	02.2019	01.2019	12.2018	11.2018
Consumer Price Index: Urban	%	1,8	2,0	1,9	1,5	1,6	1,9	2,2
Consumer Price Index: Urban: Food & Beverages (FB)	%	2,0	1,7	2,1	2,0	1,6	1,6	1,4
Consumer Price Index: Urban: Housing	%	2,8	2,9	2,9	2,9	2,9	3,0	2,9
Consumer Price Index: Urban: Apparel	%	-3,1	-3,0	-2,2	-0,8	0,1	-0,1	-0,4
Consumer Price Index: Urban: Transport	%	0,6	1,6	0,5	-1,5	-1,3	0,7	2,9
Consumer Price Index: Urban: Medical Care	%	2,1	1,9	1,7	1,7	1,9	2,0	2,0
Consumer Price Index: Urban: Recreation	%	1,2	1,6	1,2	1,0	1,4	1,2	0,6
Consumer Price Index: Urban: Education & Communication (EC)	%	0,7	0,9	0,8	0,6	0,3	0,2	0,2
Consumer Price Index: Urban: Other Goods & Services (GS)	%	1,6	1,4	2,1	2,2	1,9	2,1	2,1
CPI U: All Commodities	%	0,6	0,9	0,7	-0,2	-0,3	0,4	1,2
CPI U: Energy	%	-0,5	1,7	-0,4	-5,0	-4,8	-0,3	3,1
CPI U: Services	%	2,5	2,7	2,6	2,6	2,7	2,8	2,7

FED Policy Rate

Source: CEIC Data

Key Interest Rates

	Unit	05.2019	04.2019	03.2019	02.2019	01.2019	12.2018	11.2018
Policy Rate: Month End: Effective Federal Funds Rate	% pa	2,4	2,5	2,4	2,4	2,4	2,4	2,2
Effective Federal Funds Rate: Month Average	% pa	2,4	2,4	2,4	2,4	2,4	2,3	2,2
Prime Lending Rate: Month Average	% pa	5,5	5,5	5,5	5,5	5,5	5,3	5,3
Discount Window Primary Credit: Month Average	% pa	3,0	3,0	3,0	3,0	3,0	2,8	2,8

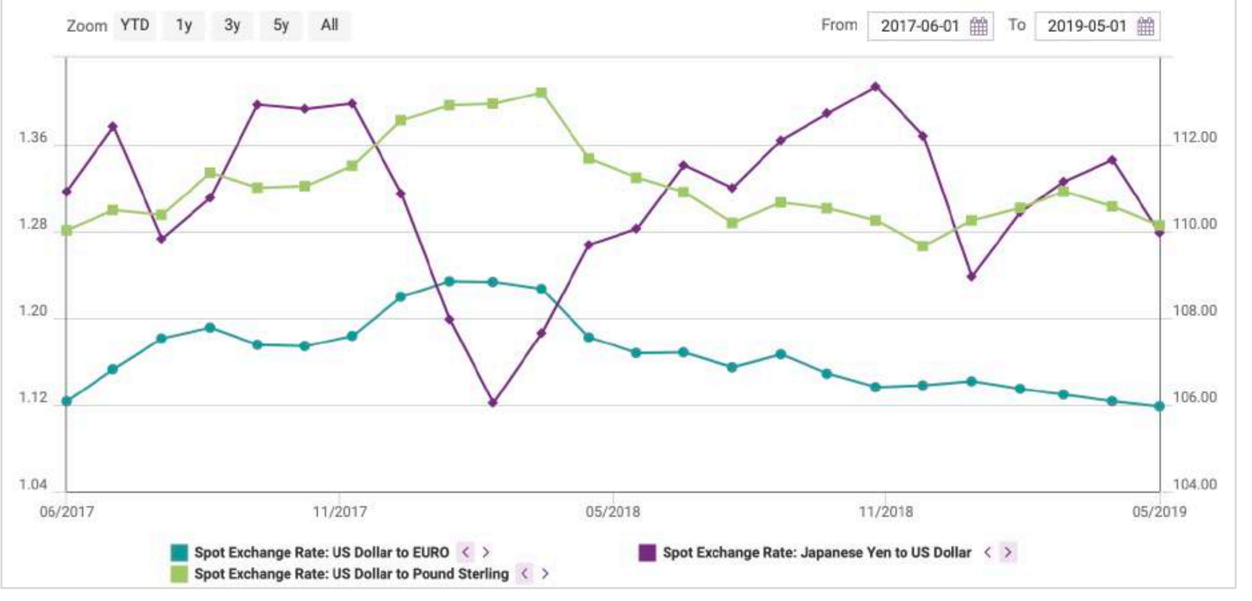
Money Supply M1 & M2 (YoY Growth)

Reserve Assets

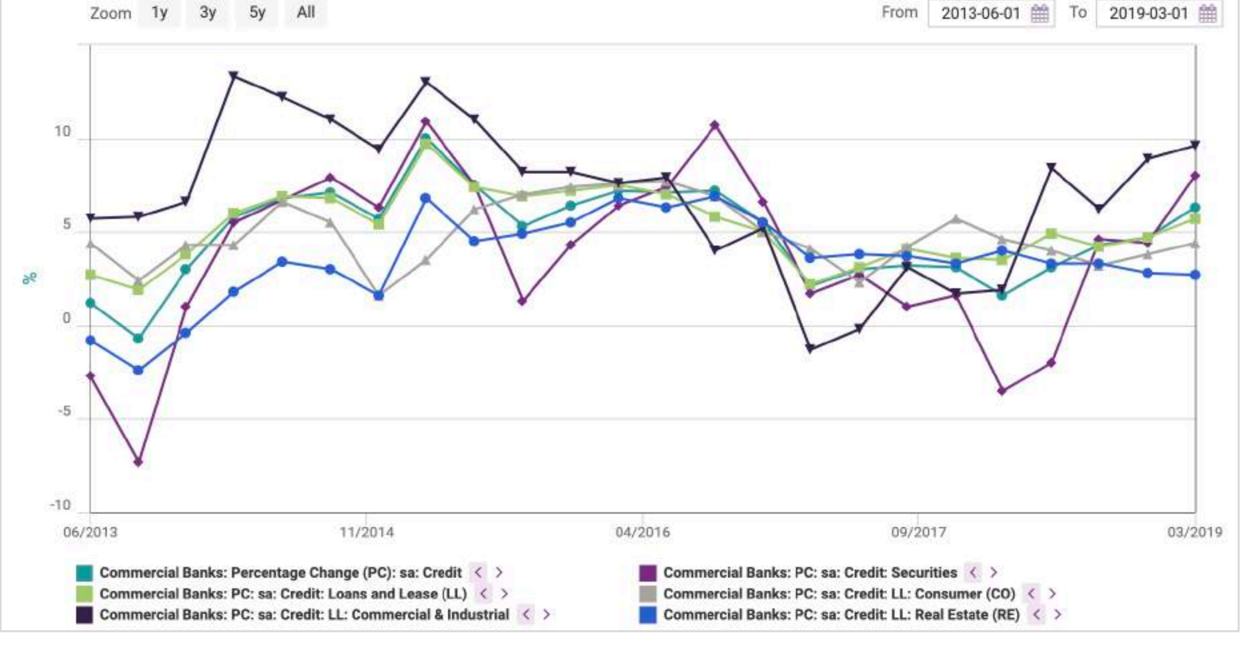
	Unit	04.2019	03.2019	02.2019	01.2019	12.2018	11.2018	10.2018
Reserve Assets	USD bn	127,3	125,2	125,8	126,4	125,8	123,5	123,6
Reserve Assets: Gold Stock Include Exchange Stabilization Fund	USD bn	11,0	11,0	11,0	11,0	11,0	11,0	11,0
Reserve Assets: Special Drawing Rights at IMF	USD bn	50,7	50,8	51,1	51,2	50,8	50,5	50,4
Reserve Assets: Position in IMF	USD bn	24,4	22,1	22,2	22,1	22,0	20,9	20,9
Reserve Assets: Holdings of Convertible Foreign Currencies	USD bn	41,1	41,3	41,5	42,1	41,9	41,1	41,2

Source: CEIC Data

Foreign Exchange Rate

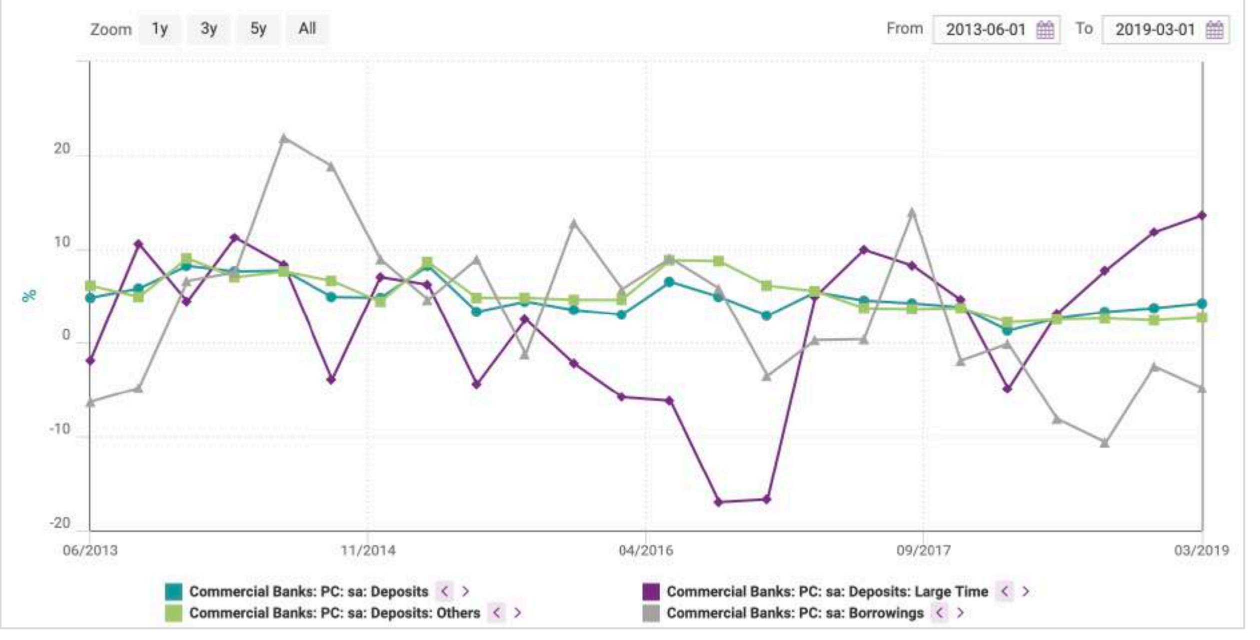


Commercial Banks: Credit Growth (YoY)



Source: CEIC Data

Commercial Banks: Deposits Growth (YoY)



Household Debt

	Unit	03.2019	12.2018	09.2018	06.2018	03.2018	12.2017	09.2017
Household Debt	USD bn	13 668,0	13 544,0	13 512,0	13 293,0	13 211,0	13 148,0	12 955,0
Household Debt: Mortgage	USD bn	9 244,0	9 124,0	9 140,0	8 999,0	8 939,0	8 882,0	8 743,0
Household Debt: Home Equity Revolving	USD bn	406,0	412,0	422,0	432,0	436,0	444,0	448,0
Household Debt: Auto Loan	USD bn	1 280,0	1 274,0	1 265,0	1 238,0	1 229,0	1 221,0	1 213,0
Household Debt: Credit Card	USD bn	848,0	870,0	844,0	829,0	815,0	834,0	808,0
Household Debt: Student Loan	USD bn	1 486,0	1 457,0	1 442,0	1 405,0	1 407,0	1 378,0	1 357,0
Household Debt: Other	USD bn	404,0	407,0	399,0	390,0	385,0	389,0	386,0

Source: CEIC Data

Fiscal Sector

Fiscal Sector

The US' total level of indebtedness remains high despite still being at sustainable levels. Two of the main recent developments- tax cuts and tariffs - have not changed the overall picture substantially and the US federal debt remains high both as a percentage of GDP and in nominal terms. Tariff revenue has not turned the annual US fiscal deficit into a surplus and in fact it has been widening as a percentage of GDP ever since 2015 to reach 3.8% of nominal GDP in 2018, due to increasing outlays amid relatively constant receipts. Federal government deficit was USD 207.8bn in May, increasing by 41% y/y. Revenues were USD 232.06bn, up 6.9% y/y, and outlays amounted to USD 439.83bn, up 20.9% y/y. Out of the consolidated monthly deficit, USD 194.5bn, or 93.6%, were on budget, the rest was off budget. Deficit was mainly financed by reduction of operating cash (91.3%), the rest coming from an increase in public borrowing and other means. Public borrowing in May was lower than in other months, which is probably due to temporary T-bill market developments. Meanwhile, state tax revenues continued their seven year growth stretch through 2018 and finished off the year with enough reserves to withstand a new slowdown. Tax collection in 41 states had surpassed recession-era peaks by late 2018, after adjusting for inflation, and could cover a bigger share of spending than before the recession.

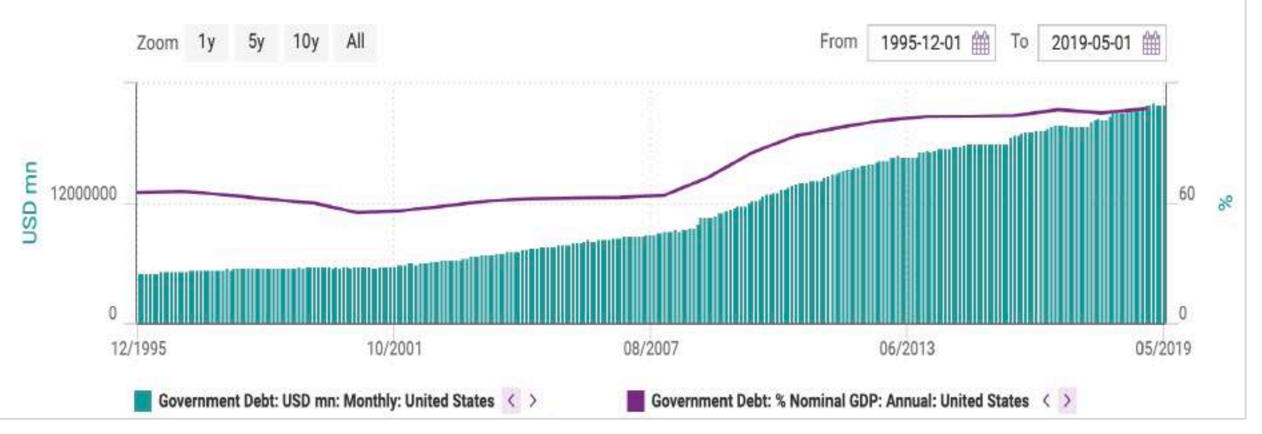
Medicare, social security and national defence were the major contributors to government outlays in all months since the beginning of the year. In nominal terms, medicare outlay in May was at its highest point for the last 12 months, which we consider temporary and not affected by major fundamental or seasonal factors. Individual income taxes (up 12% y/y in May), social insurance and retirement contributions (up 3.6% y/y in May) and employment and general retirement contributions (up 5% y/y in May) accounted for the bulk of May 2019 federal receipts.

Total tax revenue in Q1 2019 stood at USD 718.7bn, up 2.6% y/y, and has been growing, seasonality effects excluded, in the last seven years, including President Trump's postelection period, when tax rates were lower. Thus, the 2017 tax cuts made a dent in 2018 government revenues but did not substantially contribute to fiscal deficit or debt accumulation in 2018 or 2019. The negative effect was outweighed by the additional economic growth generated by lower taxes.

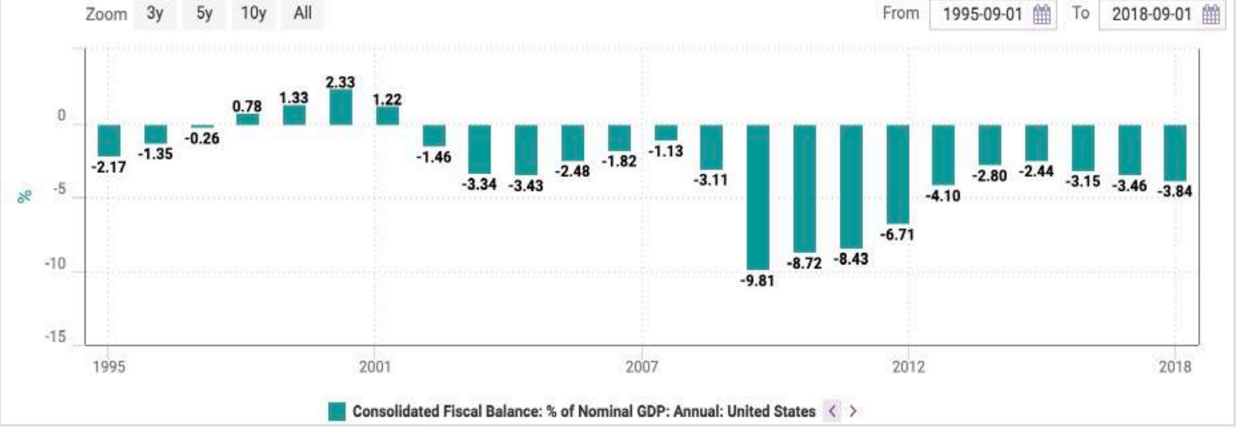
Bond yields reflected investors' unyielding faith in the US economy. As of June 20, 10-year and 30-year treasury yields are close to their lowest points so far in 2019 at 2.01% and 2.53% respectively.[2] Treasuries remain an excellent risk-free investment opportunity amid sluggish growth and significantly lower yields offered by government bonds of most other developed economies.

Total US debt has been gradually increasing in line with continuing fiscal deficit and higher private indebtedness amid lower interest rates and beneficial macroeconomic conditions. Federal and state government debt, the much larger share of which is government debt, has been gradually increasing in the last decade and last year was no exception, with year-end federal debt amounting to almost USD 22tn dollars. There have not been substantial changes in this trend as of the end of Q1 2019. Total federal US debt as of March 2019 stood at USD 22.05tn, up by 0.2% compared to December 2018. The largest share of this debt has maturity longer than one year. Out of the entire amount, 73.5% is held by the public and 26.3% is made up of intra-governmental holdings. Central government borrowing is forecast to increase by 5.6% y/y in 2019 and by an additional 2.5% in 2020, further increasing US government debt. Despite the higher debt levels, low yields on treasuries suggest investors are still willing to finance US indebtedness.

Government Debt

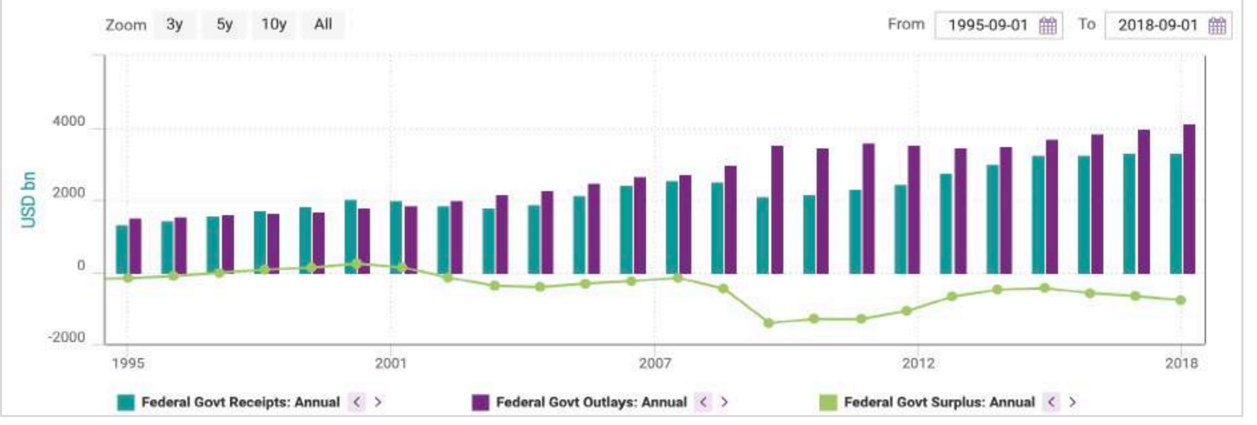


Consolidated Fiscal Balance: % of Nominal GDP

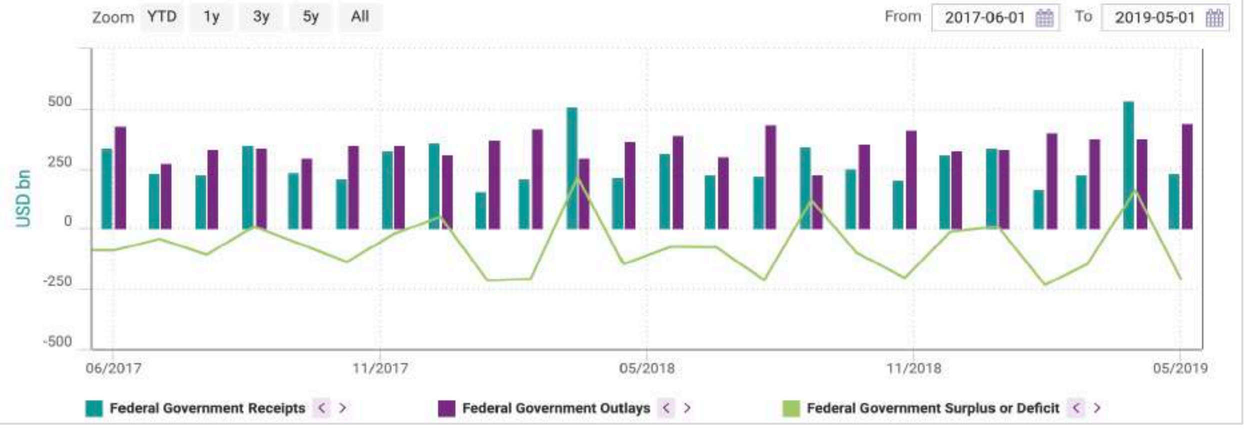


Source: CEIC Data

Federal Government Budget Balance: Annual



Federal Government Budget Balance: Monthly

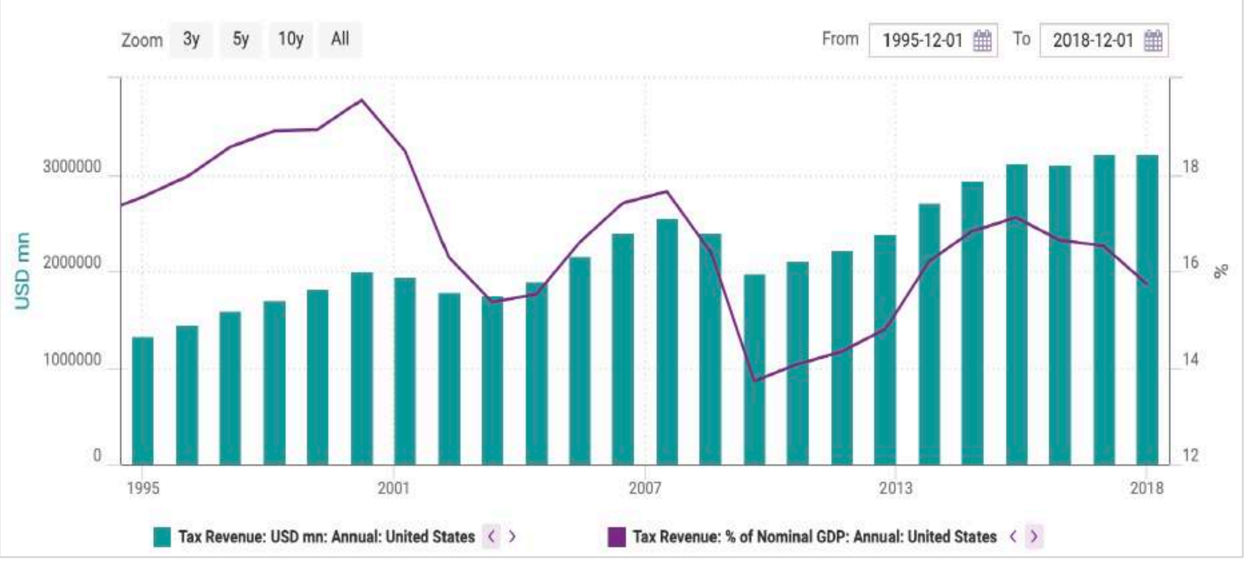


Federal Government Budget Balance & Financing

	Unit	05.2019	04.2019	03.2019	02.2019	01.2019	12.2018	11.2018
Federal Government Surplus or Deficit	USD bn	-207,8	160,3	-146,9	-234,0	8,7	-13,5	-204,9
Federal Government Surplus or Deficit: On Budget	USD bn	-194,5	140,5	-141,1	-220,7	-2,3	-41,5	-189,4
Federal Government Surplus or Deficit: Off Budget	USD bn	-13,3	19,8	-5,9	-13,3	10,9	28,0	-15,5
Federal Government Financing: Borrowing from the Public	USD bn	9,5	-12,2	-45,9	149,6	0,1	58,6	200,1
Federal Government Financing: Reduction of Operating Cash	USD bn	189,7	-88,6	-43,3	112,9	-1,5	-57,3	21,7
Federal Government Financing: By Other Means	USD bn	8,6	-59,5	236,2	-28,6	-7,3	12,2	-17,0

Source: CEIC Data

Tax Revenue

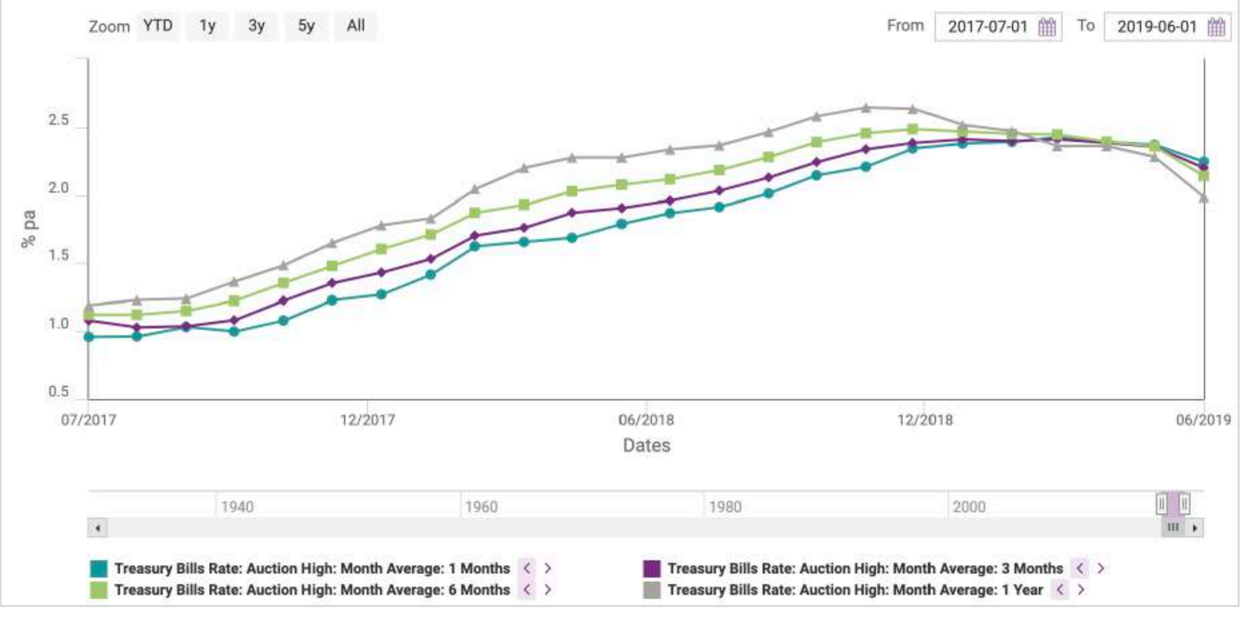


Federal Government Receipts

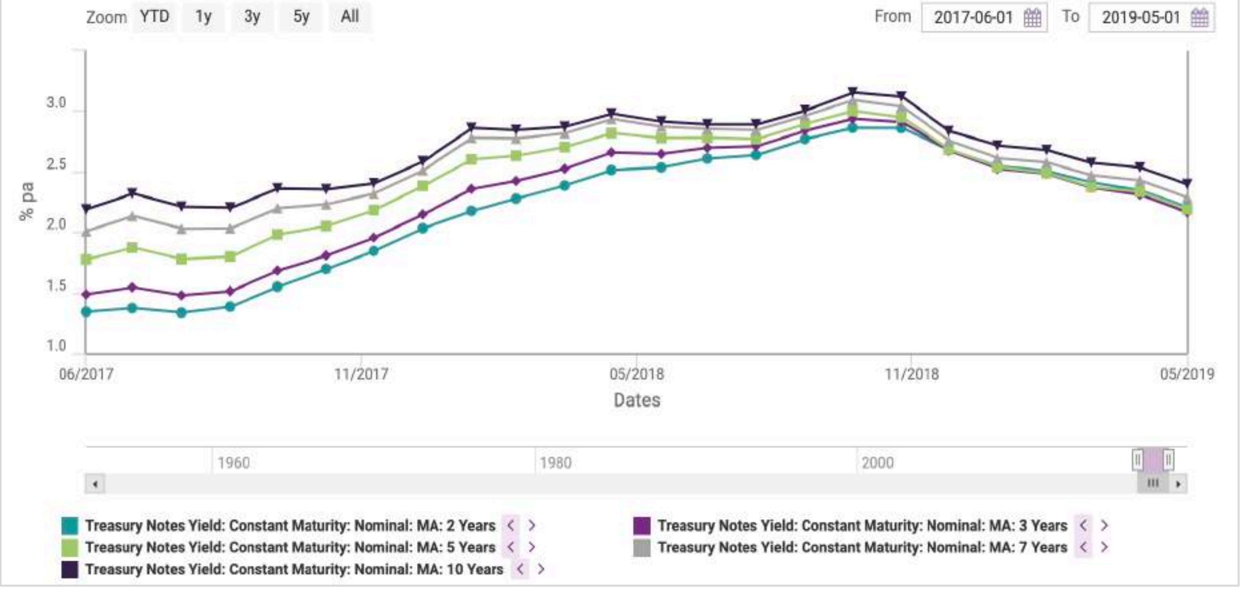
	Unit	05.2019	04.2019	03.2019	02.2019	01.2019	12.2018	11.2018
Federal Government Receipts	USD bn	232,1	535,5	228,8	167,3	340,0	312,6	206,0
Federal Government Receipts: On Budget Receipts	USD bn	158,2	439,7	149,4	95,4	253,8	243,0	139,3
Federal Government Receipts: Off Budget Receipts	USD bn	73,8	95,8	79,4	71,9	86,1	69,6	66,6
Federal Govt Receipts: Individual Income Taxes	USD bn	103,7	332,8	97,2	56,7	197,1	150,6	93,4
Federal Govt Receipts: Corporation Income Taxes	USD bn	0,4	44,7	8,8	-0,7	6,8	46,8	-1,6
Federal Govt Receipts: Social Insurance & Retirement (SI)	USD bn	107,1	135,1	102,4	95,2	115,1	94,6	92,9
Federal Govt Receipts: SI: Employment & General Retirement	USD bn	95,1	124,9	101,8	92,3	111,8	93,9	89,8
Federal Govt Receipts: SI: Unemployment Insurance	USD bn	11,6	9,8	0,3	2,4	3,0	0,3	2,7
Federal Govt Receipts: SI: Other Retirement	USD bn	0,5	0,4	0,4	0,5	0,3	0,4	0,4
Federal Govt Receipts: Excise Taxes	USD bn	7,6	7,1	7,8	5,4	6,8	7,2	7,5
Federal Govt Receipts: Estate and Gift Taxes	USD bn	0,8	2,3	0,9	1,2	1,1	1,7	1,4
Federal Govt Receipts: Customs Duties	USD bn	4,9	5,2	5,2	5,1	6,6	6,0	6,3
Federal Govt Receipts: Miscellaneous Receipts	USD bn	7,6	8,3	6,4	4,4	6,5	5,8	6,1

Source: CEIC Data

Treasury Bills Rate

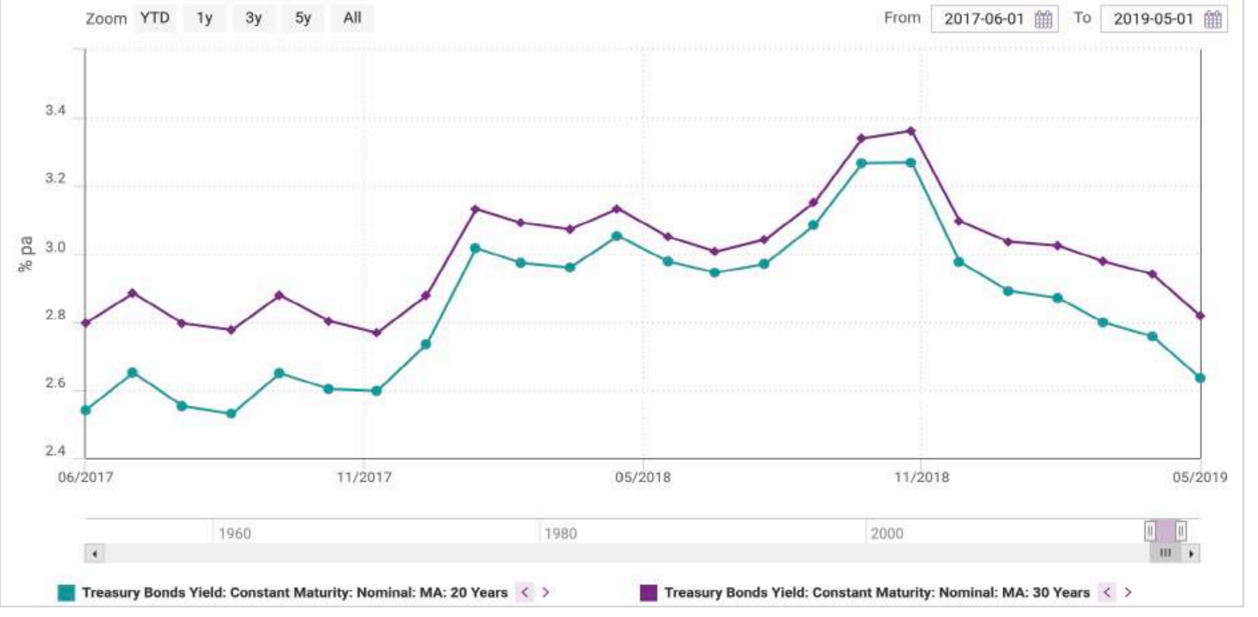


Treasury Notes Yield



Source: CEIC Data

Treasury Bonds Yield



TIPS Yield

Source: CEIC Data

External Sector

External Sector

The US has been running high and constantly increasing trade and current account deficits over the last twenty years, mainly financed through capital inflows. Total trade deficit in the first quarter of 2019 stood at USD 189.98bn, down 2.9% y/y. The deficit in April amounted to USD 73.89bn, just a notch above the figure in March due to a fall in exports.

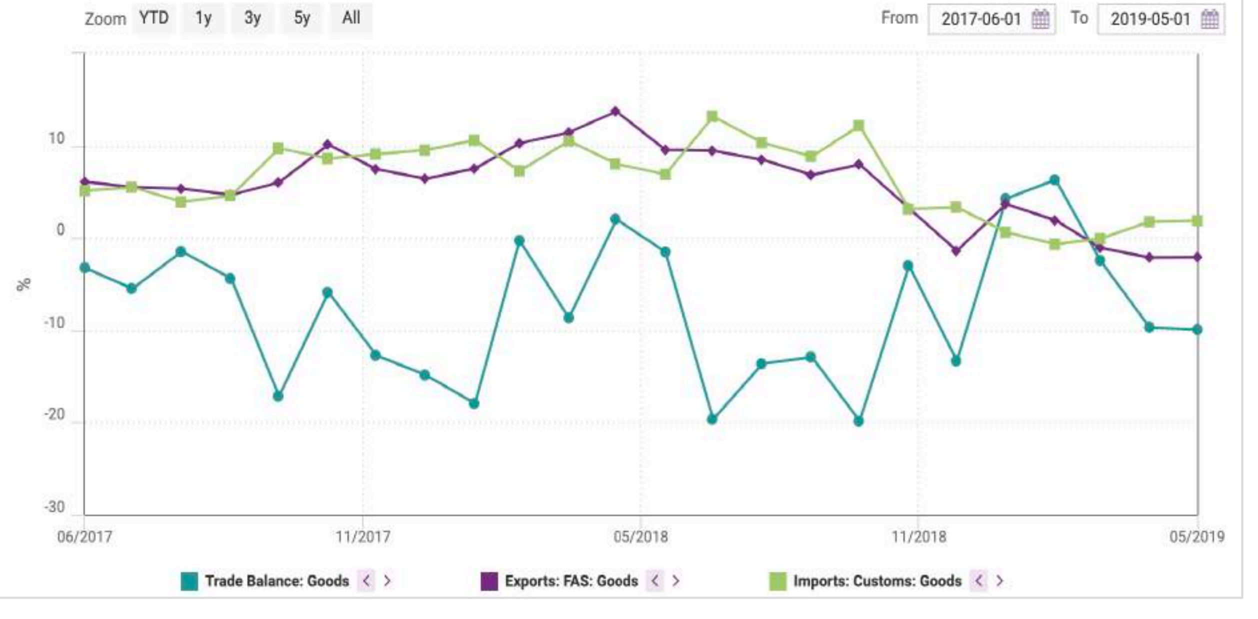
The country's main trading partners remain China, Germany, Japan and neighbouring Mexico, with China being the largest partner by far. Trade deficit with China since the beginning of the year amounted to USD 166.88bn, down 10.1% y/y. The decrease could be attributed to the falling total turnover due to the high trade tensions and the imposition of tariffs. Tariffs, however, were never a good instrument of increasing one nation's wealth, as they lead to higher costs and rarely result in customers changing their buying habits. The trade deficit with Germany decreased very slightly, while deficits with Japan, Mexico and Canada actually increased y/y in January through April 2019.

In terms of products categories, industrial supplies (33.5% of total), capital goods (32.7%) and advanced technology products (20.6%) remained the largest export revenue generators, although their exports declined q/q due to uncertainties in the US-China trade relations. The main import product categories were manufacturing of transportation equipment (16.7% of total), computer & electronic products (14.4%) and chemicals (11.4%), all down q/q except for chemicals.

The current account deficit declined by 9.4% q/q to USD 130.40mn in Q1 2019, mainly due to a higher deficit in goods trade, while trade surplus in services increased slightly. The current account deficit was mainly financed through net inflow of direct investment in debt and equity, cashing in portfolio investment in equity and fund shares abroad, loans, and net inflow of money in local deposits. The US also recorded a net inflow of foreign direct investment, much like in the last four quarters, driven by strong growth and overall macroeconomic performance.

Trade Balance

Trade Balance: YoY Growth



Source: CEIC Data

Exports: Main Categories

	Unit	05.2019	04.2019	03.2019	02.2019	01.2019	12.2018	11.2018
Trade Balance: Goods	USD mn	-78 065,00	-73 889,00	-59 726,00	-55 266,00	-74 992,00	-72 920,00	-74 332,00
Trade Balance: Advanced Technology Products	USD mn		-10 993,00	-7 232,00	-5 918,00	-10 473,00	-9 367,00	-12 677,00
Exports: FAS: Goods	USD mn	142 408,00	135 118,00	148 267,00	130 634,00	129 608,00	134 157,00	139 784,00
Exports: FAS: Goods: Foods, Feeds and Beverages	USD mn	10 550,00	10 611,00	11 342,00	10 254,00	10 603,00	10 635,00	11 692,00
Exports: FAS: Goods: Industrial Supplies	USD mn	45 780,00	45 212,00	46 055,00	41 233,00	43 012,00	42 749,00	44 787,00
Exports: FAS: Goods: Capital Goods	USD mn	46 923,00	44 134,00	51 172,00	42 782,00	42 982,00	48 152,00	47 716,00
Exports: FAS: Goods: Automotive Vehicles, Parts etc	USD mn	14 967,00	13 531,00	14 991,00	13 356,00	11 554,00	11 075,00	12 892,00
Exports: FAS: Goods: Consumer Goods	USD mn	18 369,00	16 546,00	18 998,00	17 891,00	16 517,00	15 697,00	17 298,00
Exports: FAS: Goods: Other Goods	USD mn	5 818,00	5 084,00	5 709,00	5 118,00	4 939,00	5 849,00	5 399,00
Exports: FAS: Advanced Technology Products	USD mn		27 868,00	33 989,00	29 055,00	28 147,00	32 614,00	31 994,00

Imports: Main Categories

	Unit	05.2019	04.2019	03.2019	02.2019	01.2019	12.2018	11.2018
Imports: Customs: Goods	USD mn	220 473	209 007	207 993	185 900	204 600	207 077	214 116
Imports: Customs: Goods: Foods, Feeds and Beverages	USD mn	13 458	13 365	13 377	11 151	12 629	12 564	12 053
Imports: Customs: Goods: Industrial Supplies	USD mn	48 889	46 239	44 373	38 136	44 274	43 299	44 521
Imports: Customs: Goods: Capital Goods	USD mn	59 057	56 181	57 177	50 108	54 140	59 035	58 273
Imports: Customs: Goods: Automotive Vehicles, Parts etc	USD mn	33 393	31 480	33 814	29 308	29 554	31 879	33 159
Imports: Customs: Goods: Consumer Goods	USD mn	55 650	52 564	49 699	48 815	55 342	51 669	56 416
Imports: Customs: Goods: Other Goods	USD mn	10 027	9 178	9 553	8 383	8 660	8 630	9 694
Imports: Customs: Advanced Technology Products	USD mn		38 861	41 221	34 974	38 620	41 981	44 671
Imports: Energy Related Petroleum Products	USD th		16 613 563	14 387 216	11 648 039	13 286 069	13 632 098	15 561 586
Imports: Energy Related Petroleum Products: Quantity	Barrel th		269 379	251 630	225 770	281 782	258 982	261 160
Imports: Crude Petroleum	USD th		11 745 046	10 404 644	8 147 364	9 501 466	10 055 550	12 157 059
Imports: Crude Petroleum: Unit Price	USD		57	53	47	43	50	58
Imports: Crude Petroleum: Quantity	Barrel th		205 472	195 930	173 741	223 071	200 062	211 282
Imports: Crude Petroleum: Quantity: Average per day	Barrel th		6 849	6 320	6 205	7 196	6 454	7 043

Source: CEIC Data

Top Trading Partners: Exports

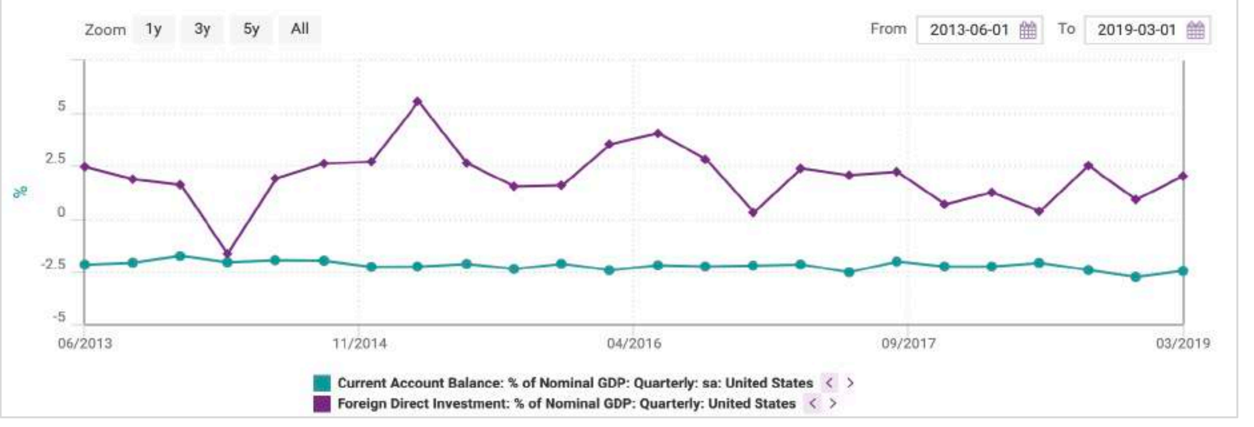
	Unit	04.2019	03.2019	02.2019	01.2019	12.2018	11.2018	10.2018
Exports: FAS: Canada: sa	USD mn	24 605	25 013	25 094	24 571	24 202	24 413	24 893
Exports: FAS: Mexico: sa	USD mn	22 183	21 734	21 942	22 017	21 259	22 283	22 329
Exports: FAS: China: sa	USD mn	8 466	10 217	9 243	7 649	7 677	7 420	7 545
Exports: FAS: Japan: sa	USD mn	6 035	6 019	5 767	6 779	6 635	6 747	6 424
Exports: FAS: United Kingdom: sa	USD mn	5 232	5 366	6 057	6 402	5 923	5 994	5 477
Exports: FAS: Germany: sa	USD mn	4 916	5 043	4 953	5 371	4 449	5 122	4 727
Exports: FAS: South Korea: sa	USD mn	4 764	4 837	4 559	4 307	5 288	4 704	5 351
Exports: FAS: Netherlands	USD mn	4 311	4 586	4 118	4 630	4 147	4 299	4 567
Exports: FAS: Hong Kong SAR: sa	USD mn	2 779	2 624	2 982	2 302	2 680	2 990	2 994
Exports: FAS: Brazil: sa	USD mn	3 444	3 655	3 318	3 697	3 239	3 125	3 529
Exports: FAS: France: sa	USD mn	3 228	3 245	3 259	3 449	3 089	3 117	3 203
Exports: FAS: Belgium	USD mn	3 051	3 182	3 188	2 784	2 515	2 436	2 655
Exports: FAS: Singapore: sa	USD mn	2 815	2 471	2 566	2 295	2 635	2 666	2 795
Exports: FAS: Taiwan: sa	USD mn	2 395	2 528	2 976	2 328	2 675	2 457	2 758
Exports: FAS: India: sa	USD mn	3 312	3 226	2 974	3 068	3 349	2 810	2 684

Top Trading Partners: Imports

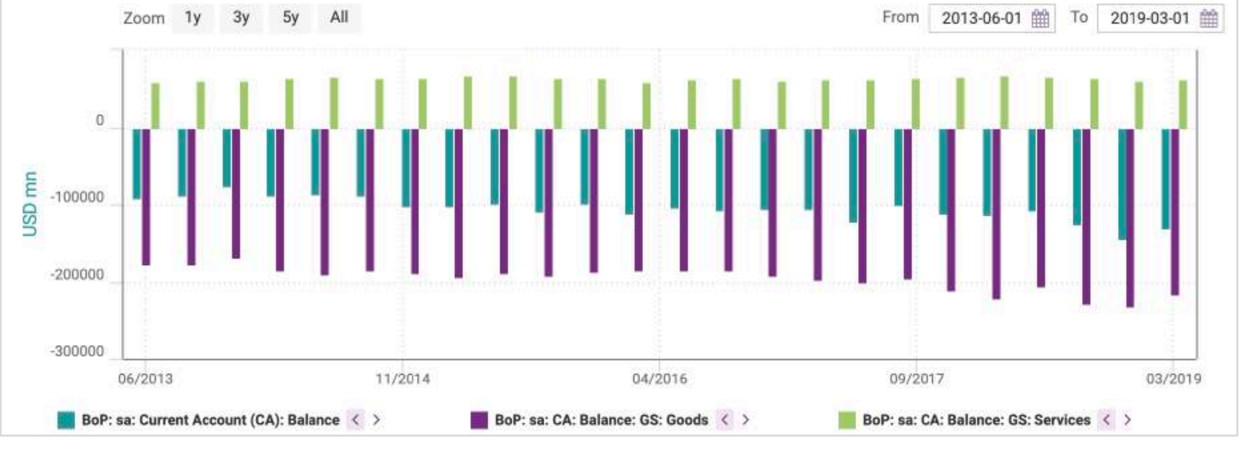
	Unit	04.2019	03.2019	02.2019	01.2019	12.2018	11.2018	10.2018
Imports: Customs: China: sa	USD mn	37 876	37 556	39 380	40 337	46 093	43 588	45 758
Imports: Customs: Mexico: sa	USD mn	30 131	30 229	29 702	29 157	29 677	29 284	28 858
Imports: Customs: Canada: sa	USD mn	26 425	27 698	25 161	23 307	25 180	25 661	26 741
Imports: Customs: Japan: sa	USD mn	12 498	12 023	12 299	12 104	12 138	12 530	12 016
Imports: Customs: Germany: sa	USD mn	10 277	10 967	10 213	11 177	10 186	10 569	10 458
Imports: Customs: South Korea: sa	USD mn	6 247	6 755	7 198	6 680	6 844	6 340	6 928
Imports: Customs: United Kingdom: sa	USD mn	5 584	5 803	5 322	4 502	5 338	5 197	5 295
Imports: Customs: Italy: sa	USD mn	4 712	4 847	4 718	4 917	4 903	4 327	4 738
Imports: Customs: France: sa	USD mn	5 225	4 851	5 551	4 618	4 452	4 355	4 283
Imports: Customs: Ireland	USD mn	4 830	5 400	4 029	4 834	4 578	4 834	5 315
Imports: Customs: India: sa	USD mn	4 657	5 121	5 163	4 941	4 687	4 520	4 689
Imports: Customs: Vietnam	USD mn	4 728	5 269	5 322	5 377	3 786	4 061	4 975
Imports: Customs: Taiwan: sa	USD mn	4 416	4 501	4 510	4 467	4 260	4 093	3 987
Imports: Customs: Malaysia	USD mn	2 876	3 413	2 716	3 007	3 418	3 287	3 216
Imports: Customs: Switzerland	USD mn	3 705	3 586	3 230	3 543	3 416	3 619	4 387

Source: CEIC Data

Current & Financial Account: % of Nominal GDP



BoP: Current Account Balance



BoP: Portfolio Investment

Source: CEIC Data

ISI Emerging Markets Group

EMIS CEIC

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ISI Emerging Markets Group incorporates CEIC and EMIS, renowned globally as the leading providers of data, analysis and research for the world's fastest growing and highest potential countries. For over 25 years, our businesses have gone out of their way to gather the very best data and analysis available for emerging markets. We believe we have a unique model that relies on local expertise and relationships, a quality assurance process that is second to none and the implementation of leading technology to deliver information in the ways our customers need it.

In May 2018, CITIC Capital Partners and Caixin Global completed the acquisition of ISI Emerging Markets Group. Caixin Global is part of a hugely influential Chinese media group that also includes Caixin Media and Caixin Insight.

Within this report you will find contributions from each of EMIS, CEIC and Caixin. If you would like to find out more about how we can help you with your emerging market information needs, please visit **https://www.isimarkets.com**.

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