

U.S. economic growth picks up in second quarter; wages continue to lag

By Lucia Mutikani

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The U.S. economy accelerated in the second quarter as consumers ramped up spending and businesses invested more on equipment, but persistent sluggish wage gains cast a dark shadow over the growth outlook.

Gross domestic product increased at a 2.6 per cent annual rate in the April-June period, which included a boost from trade, the Commerce Department said in its advance estimate on Friday. That was more than double the first quarter's downwardly revised 1.2 per cent growth pace.

There was, however, little inflation in the economy in the second quarter and wage growth decelerated despite a tightening labor market. That could put the Federal Reserve in a tight spot as it looks to raise interest rates one more time this year.

Prices of U.S. government debt rose after the release of the data while the dollar initially fell against a basket of currencies. U.S. stock index futures pared losses slightly.

“Although growth is solid, the lack of wage pressure buys the Fed plenty of time, and works with a very ‘gradual’ tightening cycle,” said Alan Ruskin, global head of G10 FX strategy at Deutsche Bank in New York. “There is more here for the Fed doves than the hawks.”

Economists expect the Fed to announce a plan to start reducing its \$4.2-trillion portfolio of Treasury bonds and mortgage-backed securities in September.

The U.S. central bank left rates unchanged on Wednesday and said it expected to start winding down its portfolio “relatively soon.”

The rise in second-quarter GDP was in line with economists' expectations. The economy

was previously reported to have grown at a 1.4 per cent pace in the first quarter.

The economy grew 1.9 per cent in the first half of 2017, making it unlikely that GDP would top 2.5 per cent for the full year. President Donald Trump has set an ambitious 3.0 per cent growth target for 2017.

While the Trump administration has vowed to cut corporate and individual taxes as part of its business-friendly agenda, Republicans' struggles in Congress to pass a healthcare restructuring have left analysts skeptical on the prospects of fiscal stimulus. So far, the impasse in Washington has not hurt either business and consumer confidence.

A resurgence in consumer spending accounted for the bulk of the pickup in economic growth in the second quarter. Consumer spending, which makes up more than two-thirds of the U.S. economy, grew at a 2.8 per cent rate. That was an acceleration from the 1.9 per cent pace logged in the first quarter.

But with wage growth remaining sluggish despite the labor market being near full employment, there are concerns that consumer spending could slow in the third quarter.

In a separate report on Friday, the Labor Department said its Employment Cost Index, the broadest measure of labor costs, increased 0.5. per cent in the April-June period after accelerating 0.8 per cent in the first quarter. Annual wage growth has struggled to rise above 2.5 per cent.

Inflation was subdued in the second quarter. The Fed's preferred inflation measure, the personal consumption expenditures (PCE) price index excluding food and energy,

increased at a 0.9 per cent rate compared to 1.8 per cent in the first quarter.

Business spending boost

Business spending on equipment rose at a pace of 8.2 per cent in the second quarter, the fastest since the third quarter of 2015. It was the third straight quarterly increase.

Spending on mining exploration, wells and shafts grew at a 116.7 per cent rate, slowing from the first-quarter's robust 272.1 per cent pace. As a result, investment on nonresidential structures increased at a 4.9 per cent pace, moderating from the January-March period's brisk 14.8 per cent rate.

Businesses continued to carefully manage their inventories in the second quarter but spent more

in some places. Inventory investment was neutral to GDP growth after slicing 1.46 percentage points in the first quarter.

Trade added 0.18 percentage point to growth, contributing to output for a second straight quarter.

Housing was a drag on growth in the last quarter, with investment on homebuilding contracting at a 6.8 per cent rate, the worst performance since the third quarter of 2010.

Alongside the second-quarter GDP report, the government published revisions to data going back to 2014, which showed little change in the growth picture.