



Written by [Bob Adelman](#) on July 27, 2018

Huge Second-quarter GDP Gains; Some Say Unsustainable

During President Trump's celebration of the second-quarter gross domestic product (GDP) report in the Rose Garden on Friday morning, [he said that](#) "We're on track to hit the highest annual growth rate in over 13 years. And I will say this right now and I will say it strongly: As the [trade] deals come in one by one, we're going to go a lot higher than these numbers, and these are great numbers."



On cue, the naysayers came out of the woodwork, explaining why the second quarter's numbers were so strong — exports expanded to take advantage before tariffs kicked in, for example — and predicting that the rest of the year is likely to see much lower numbers. For example, Paul Ashworth, the chief U.S. economist at the research firm Capital Economics, wrote that while "the economy enjoyed a strong first half of this year ... we expect GDP growth to slow markedly from mid-2019 onwards."

Ryan Sweet, director of real-time economics at Moody's Analytics, said, "This is the high watermark for the year as it will be difficult to surpass," while Avery Shenfeld of CIBC Economics said the report from the Bureau of Economic Analysis in the Commerce Department contains "definitely big numbers but ... exports will likely be softer" in the coming quarters as tariffs kick in. Ian Shepherdson, chief economist at Pantheon Macroeconomics, issued a one-liner: "Looks great; won't last."

Jared Bernstein, a former economic advisor to Vice President Joe Biden, tweeted: "Pretty Goldilocks GDP report: up 4.1%, juiced by strong consumer spending, net exports (exporters getting ahead of tariffs, i.e., one-time). More reliable yr/yr growth up 2.8%."

Together, the chorus of naysayers sang the same song: Exports, which were up 9.3 percent in the second quarter, reflected exporters accelerating their shipments abroad to avoid the coming tariffs; the strong report reflected a four-percent increase in consumer spending compared to less than one-percent growth in the first quarter, and so therefore it was a one-off event not expected to continue; tariffs being applied in the third and fourth quarters will slow economic growth; the Federal Reserve's determination to "remove the punch bowl just as the party is getting started" will slow the economy further by continuing to raise interest rates; consumer sentiment just reported by the University of Michigan fell, portending further declines in consumer spending in the future; and so on and so forth.

Missing from their long list of negatives to support their dour outlook were these data points:

- The above-mentioned consumer sentiment reading from the University of Michigan showed a decline of just three-tenths of one percent, down from previous all-time highs;
- The U.S. trade gap with the world narrowed by more than \$50 billion last month, which reflects tariffs already coming down and boosting American exports;
- Real final sales for domestic purchasers — a more reliable indicator of economic activity than many others — rose 3.9 percent in the second quarter; and
- Inflation fell, surprising many in the mainstream economic community, with the Fed's favorite



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inflation indicator, the personal expenditure consumption price index, falling from 2.5 percent in the first quarter to 1.8 percent in the second. The core rate also fell, from 2.2 percent to 2.0 percent.

Concerns about tariff disputes slowing economic activity are premature, according to MarketWatch: “So far there is little evidence of any [tariff] disruption in the economic data.”

Also missing from most economists’ calculations was the enormous Prime Day shopping enjoyed by Amazon customers in early July: Despite technical glitches that kept some shoppers from enjoying discounts during the company’s annual “day” (which was 36 hours long this year), more than 100 million items were purchased and shipped, setting a record for the innovative company. It also greatly reduced providers’ inventories, which they will be busy rebuilding in the third and fourth quarters in time for the holiday shopping season.

Finally, none of those naysayers said a single word about the turbo-charging effect of the repatriation of funds from abroad encouraged under Trump’s tax reform. Hundreds of billions have already moved back, and are providing funding for “shovel ready” projects that have been on the drawing boards for years just waiting for a moment like this. Showing up as a 7.3-percent increase in business spending in the latest GDP report for the second quarter, that is just the start, as those new projects are completed. The president said in his White House address on Friday morning that for each one percentage-point of gain in the economy, 10 million jobs will be created. It’s actually the other way round: As those new jobs are created, thanks to the new capital being invested in profitable projects, the flow of new funds from wages paid to new employees will continue to push the U.S. economy to ever-higher levels.

Capital, after all, when allowed to move to places where it is treated best, will generate the economic activity that drives the engine. The naysayers, who have consistently underestimated the power of that engine, are likely to continue to predict slowing of the economy just as it is hitting its stride.

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