Economics

ECONOMIC FLASH!

economics.cibccm.com

January 25, 2024

US Q4 GDP: Ending the year with a bang

by **Katherine Judge** katherine.judge@cibc.com

Annualized Qtrly Chg.	23 Q4	23 Q3	23 Q2	23 Q1	22 Q4	22 Q3
Real GDP	3.3%	4.9%	2.1%	2.2%	2.6%	2.7%
Personal consumption	2.8%	3.1%	0.8%	3.8%	1.2%	1.6%
• Goods	3.8%	4.9%	0.5%	5.1%	0.0%	-0.7%
• Durable goods	4.6%	6.7%	-0.3%	14.0%	-1.0%	0.9%
• Nondurable goods	3.4%	3.9%	0.9%	0.5%	0.5%	-1.6%
• Services	2.4%	2.2%	1.0%	3.1%	1.8%	2.8%
Gross private investment	2.1%	10.0%	5.2%	-9.0%	3.4%	-7.6%
• Fixed investment	1.7%	2.6%	5.2%	3.1%	-5.4%	-4.3%
• Nonresidential	1.9%	1.5%	7.4%	5.7%	1.7%	4.7%
• Structures	3.2%	11.2%	16.1%	30.3%	6.5%	-1.2%
• Equipment	1.0%	-4.4%	7.7%	-4.1%	-5.0%	5.6%
• Intellectual Property	2.1%	1.8%	2.7%	3.8%	6.1%	7.0%
• Residential	1.0%	6.7%	-2.2%	-5.3%	-24.9%	-26.5%
Exports	6.3%	5.4%	-9.3%	6.8%	-3.5%	16.2%
• Goods	4.7%	7.7%	-16.0%	12.0%	-6.3%	21.5%
• Services	9.5%	1.0%	6.3%	-3.5%	3.0%	5.0%
Imports	1.9%	4.2%	-7.6%	1.3%	-4.3%	-4.8%
• Goods	0.8%	5.9%	-6.5%	1.8%	-4.3%	-7.3%
• Services	6.8%	-2.8%	-12.3%	-1.2%	-3.9%	8.1%
Government	3.3%	5.8%	3.3%	4.8%	5.3%	2.9%
• Federal	2.5%	7.1%	1.1%	5.2%	9.8%	1.2%
• National defense	0.9%	8.4%	2.3%	1.9%	7.7%	-0.3%
• Nondefense	4.6%	5.6%	-0.4%	9.4%	12.6%	3.3%
• State and local	3.7%	5.0%	4.7%	4.6%	2.8%	3.8%

Source: Haver Analytics.

- The US economy ended 2023 with a bang, as GDP growth clocked in at 3.3% q/q annualized, well above the 2.0% consensus expectation. The consumer was the driving force behind growth, with increases in discretionary sub-sectors, including restaurants and recreational goods, adding to strong growth in health care spending. Export growth and state/local government spending were also leading contributors to growth. The Q4 pace was still cooler than the 4.9% pace recorded in the third quarter, with slowdowns in inventory investment, federal government spending, and residential investment, along with consumption, accounting for the deceleration. The core PCE price deflator came in at 2.0% q/q annualized as expected, matching the Q3 pace and the Fed's target. We still expect the Fed to hold off on cutting rates until Q3 2024, however, given that growth remains so far above potential, and sustaining that 2%

inflation pace could be a challenge if that continues. A low saving rate, reduced credit availability, and a slowdown in the labor market all portend slower activity ahead.

- The slight deceleration in consumption growth was accounted for by an easing in the pace of goods spending. Although durable goods spending slowed, given how restrictive monetary policy is, it's impressive that it's still 6% above year-ago levels. Despite slower labor income, total income growth gained momentum, supplemented by higher interest and dividend income, while real incomes were boosted even more by the easing in inflation. The saving rate dipped to 4.0% in Q4, well below the 7.0% level that prevailed pre-pandemic, and an unsustainably low level in our view. Signposts of consumer health have deteriorated lately, with delinquency rates for some consumer loan products rising, buy-now-pay-later borrowing increasing, credit card balances stretched, and excess savings being depleted, which all point to a slower pace of consumption ahead.
- Exports were the next largest contributor to growth, with the contribution split equally between goods and services. On the goods side, higher petroleum shipments led the way, with US shale oil filling in the gap left by OPEC+ production restraints. Import growth slowed but could pick up again ahead given the need to restock shelves amidst resilient consumption.
- Federal government spending slowed markedly on lower national defense outlays, but state and local levels increased expenditures, with employee compensation and investment in structures leading the way. State and local government spending is being supported by cash reserves built up during the pandemic, but employment in those sectors is now within reach of pre-pandemic levels, which could result in slower growth in outlays ahead.
- Business investment added a modest amount to growth in the quarter, with the pace accelerating slightly to 1.9% q/q saar. Investment in productivity-enhancing intellectual property products led the way, while equipment investment grew slightly after a contraction in Q3. The slowdown in structures investment was driven by lower investment in commercial/health care structures, and a deceleration in the manufacturing sector, which shows that activity is responding to higher interest rates. And with commercial and industrial loans outstanding below year-ago levels, business investment should slow ahead.
- Residential investment increased modestly for the second quarter in a row, leaving it roughly in line with year-ago levels, but still well below levels seen two years ago. It was the single-family sector that accounted for the increase in building, while multi-family investment pulled back. That was likely helped by unseasonably warm temperatures that extended the construction season in northern states.

Implications & actions

Re: Economic forecast — The US economy is cooling and should slow further in 2024, in line with leading indicators. Although PCE inflation has been tame, that's been helped by supply chain improvements that may now be largely in the rear view mirror. The Fed still sees the need for a slower pace to growth to sustain 2% inflation, and the momentum seen in Q4 gives it the leeway to be patient in delivering the first rate cuts. That reinforces our expectation for policymakers to wait until Q3 to start cutting interest rates.

Re: Markets — Bonds rallied despite the above-consensus growth data and consensus-matching PCE prices, perhaps a reflection of remarks by the ECB head or the uptick in jobless claims released at the same time.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC