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US Q4 GDP: A modest deceleration in underlying demand

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Annualized Qtrly Chg.	25 Q4	25 Q3	25 Q2	25 Q1	24 Q4	24 Q3
Real GDP	1.4%	4.4%	3.8%	-0.6%	1.9%	3.3%
Personal consumption	2.4%	3.5%	2.5%	0.6%	3.9%	4.0%
• Goods	-0.1%	3.0%	2.2%	0.2%	6.9%	6.1%
• Durable goods	-0.9%	1.5%	2.3%	-3.4%	13.0%	8.6%
• Nondurable goods	0.4%	3.9%	2.2%	2.2%	3.8%	4.8%
• Services	3.4%	3.6%	2.6%	0.8%	2.5%	3.0%
Gross private investment	3.8%	0.0%	-13.7%	23.3%	-6.8%	0.9%
• Fixed investment	2.6%	0.8%	4.4%	7.1%	-1.9%	1.5%
• Nonresidential	3.7%	3.2%	7.3%	9.5%	-3.7%	3.5%
• Structures	-2.4%	-5.0%	-7.5%	-3.1%	-8.0%	-2.2%
• Equipment	3.2%	5.2%	8.5%	21.3%	-4.2%	8.2%
• Intellectual Property	7.4%	5.6%	15.0%	6.5%	-0.6%	2.6%
• Residential	-1.6%	-7.1%	-5.1%	-1.0%	4.3%	-4.8%
Exports	-0.9%	9.6%	-1.8%	0.2%	-0.9%	8.9%
• Goods	-1.8%	8.6%	-4.7%	6.3%	-3.9%	8.4%
• Services	0.5%	11.5%	3.5%	-9.7%	4.6%	9.8%
Imports	-1.3%	-4.4%	-29.3%	38.0%	-0.2%	10.1%
• Goods	-2.8%	-7.1%	-35.0%	52.0%	-3.1%	8.9%
• Services	3.9%	6.4%	-1.2%	-5.8%	11.5%	15.4%
Government	-5.1%	2.2%	-0.1%	-1.0%	3.3%	5.4%
• Federal	-16.6%	2.7%	-5.3%	-5.6%	4.4%	8.6%
• National defense	-10.8%	5.7%	0.9%	-6.9%	4.5%	13.5%
• Nondefense	-24.0%	-1.4%	-13.0%	-3.8%	4.0%	2.4%
• State and local	2.4%	2.0%	3.1%	1.9%	2.7%	3.6%

Source: Haver Analytics.

- The headline Q4 GDP disappointed, coming in at 1.4% quarterly annualized pace, below expectations of a 2.8% increase. But the headline figure has been noisy due to shifts in trade and inventories, and this time around the government shutdown added to that noise, delivering an outsized negative impact this quarter but that will reverse and then flatter growth in 26Q1. Hence, we wouldn't pay too much attention to headlines talking about a "sharp" slowdown in growth and remain focused on private domestic demand – which strips out the volatile trade and inventory components, as well as government – and that grew at a 2.4% rate, down from the nearly 3% pace over the prior two quarters. Private domestic demand gives the best temperature gauge of where the economy sits and the reading is an economy that is modestly decelerating, but remains fairly healthy. The consumer continued to be the

main driver of growth and business investment looked good yet again, supported by another huge boost in information processing equipment, software and R&D, telling us the AI boom gained further steam in Q4. Core PCE inflation was a bit hotter in December (+0.4% vs 0.3% expected) and came in at 2.7% in Q/Q SAAR terms, two ticks below Q3. This report is likely what the Fed expected and won't move the needle in discussions on where rates need to go. Future inflation and job reports will continue to be the main guidepost for the Fed. We expect two cuts in the second half of the year.

- 2025, on the surface, was a year of resilience and outperformance. GDP and consumption growth were both 2.2% on Q4/Q4 basis, AI-led a resurgence of investment to almost 6.0% and imports have dipped a modest 2.0% since the end of last year, despite a significant (although less than feared) increase in tariffs. The job market has faltered a bit, but nothing is flashing red, with swift action from the Fed likely providing a bit of a helping hand. Perhaps the biggest disappointment for 2025 was the lack of progress on inflation, as core inflation stood at 2.9% in Q4/Q4 terms, the same rate at the end of 2024.
- What's in store for 2026? We're seeing some mixed signals to the start the year. Jobs, production and inflation are off to a good start, but consumer momentum looks soft and wage looks likely to continue to soften. The pain from past tariff increases and a squeeze on immigration are likely to show up more, pushing private demand growth down another few notches, delivering readings closer to 2% than 3%, following the trend in the job market seen in 2025. There are growing worries about the massive spend on AI not delivering the type of eye-popping returns that investors were hopping for, which could lead to at the very least, a slowdown in business investment. If AI stocks wobble, that could also push consumption down further. All in all, we're not worried about growth falling off a cliff, but we expect to see more of what we saw in today's report next, a softening underlying trend of growth.

Implications & actions

Re: Economic forecast — GDP came below expectations, and our starting point forecast range for 26Q1 is between 2-2.5% on the basis of a rebound in government spending helping to offset a moderation in consumption.

Re: Markets — Bond yields and the dollar rose despite the downside surprise in headline GDP.

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