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US Q4 GDP: Underlying pace of growth still around 3%

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Annualized Qtrly Chg.	24 Q4	24 Q3	24 Q2	24 Q1	23 Q4	23 Q3
Real GDP	2.3%	3.1%	3.0%	1.6%	3.2%	4.4%
Personal consumption	4.2%	3.7%	2.8%	1.9%	3.5%	2.6%
• Goods	6.6%	5.6%	3.0%	-1.2%	3.4%	3.5%
• Durable goods	12.0%	7.6%	5.4%	-1.7%	2.8%	4.2%
• Nondurable goods	3.8%	4.6%	1.7%	-0.8%	3.6%	3.1%
• Services	3.1%	2.8%	2.7%	3.4%	3.5%	2.1%
Gross private investment	-5.6%	0.8%	8.3%	3.6%	0.7%	10.1%
• Fixed investment	-0.6%	2.1%	2.3%	6.5%	3.5%	2.5%
• Nonresidential	-2.2%	4.0%	3.9%	4.5%	3.8%	1.1%
• Structures	-1.1%	-5.0%	0.2%	6.2%	6.5%	1.8%
• Equipment	-7.8%	10.8%	9.9%	0.3%	0.7%	-1.0%
• Intellectual Property	2.6%	3.1%	0.7%	7.5%	5.2%	2.8%
• Residential	5.3%	-4.3%	-2.8%	13.7%	2.6%	7.7%
Exports	-0.8%	9.6%	1.0%	1.9%	6.2%	4.9%
• Goods	-5.0%	10.3%	0.9%	-0.3%	5.3%	7.5%
• Services	7.3%	8.3%	1.3%	6.2%	8.0%	0.0%
Imports	-0.8%	10.7%	7.6%	6.1%	4.2%	4.7%
• Goods	-4.0%	10.7%	8.4%	6.5%	1.8%	5.1%
• Services	12.8%	11.1%	4.3%	4.8%	14.8%	2.6%
Government	2.5%	5.1%	3.0%	1.8%	3.6%	5.7%
• Federal	3.2%	8.9%	4.3%	-0.4%	-0.4%	5.3%
• National defense	3.3%	13.9%	6.5%	-2.5%	-1.3%	6.7%
• Nondefense	3.1%	2.6%	1.6%	2.6%	0.9%	3.4%
• State and local	2.0%	2.9%	2.3%	3.1%	6.1%	5.9%

Source: Haver Analytics.

- GDP growth came in at a more modest pace to close out the year, posting 2.3% q/q annualized in Q4, below consensus expectations of 2.6% and last quarter's 3.1% increase. For 2024 as a whole, Q4/Q4 growth was 2.5%, in line with Fed's December projection. Despite the slightly softer headline GDP growth than expected, consumption growth was sizzling yet again, coming at 4.2% (+2.8pp contribution), a full percentage point above expectations. The American consumer just can't get enough of durable goods spending, which rose by 12.1% in the quarter and is miles above its pre-pandemic trend. But beyond the consumer, the rest of the economy looked fairly soft in Q4. Business investment spending contracted by 2.2% (-0.3pp) and government spending slowing down to 2.5% (+0.4pp) from average growth of 4% over the previous two quarters. Housing investment growth did pick up modestly to 5.3%

(+0.2pp) but that follows two consecutive quarters of decline. Both imports and exports contracted modestly in the quarter leading to a neutral contribution of net exports. The largest drag on growth came from inventories, which subtracted 0.9pp, with hurricanes and manufacturing strikes likely playing a role there. Stripping out inventories and net trade, final sales to domestic purchasers growth came in at a still very strong pace 3.1%, about the average over the last two years. The core PCE price deflator came in at 2.5% q/q annualized, in line with expectations, and three ticks above last quarter. In monthly terms, assuming no revisions to prior months, that implies a monthly core PCE reading of 0.14% m/m to 0.2% for December.

- Will this momentum be sustained under Trump? The administration so far has been very aggressive, focusing on immigration policy and issuing trade threats to its most important regional trade partners. A slowdown in population growth and labor supply seems inevitable and is likely partly behind the cooling in the job market over the past year as the Biden administration cracked down materially on illegal crossing in the run up to the election. We think that will cause the job market to cool a little bit more and that will trickle down into a slightly slower pace of consumption growth. But the floor for consumption growth is still likely high, driven by the surging asset income and spend-happy and tech-savvy Millennials.
- Beyond the consumer, there could be mixed impacts. The administration trying to pause and slash government spending as well as cut jobs and incentivize early retirement. We're not so sure those measures will make a major dent in the short-run but the hiring rates of federal government workers will likely come to a crawl, cooling the job market and further expansion in government spending. But the extension of the TCJA, regulatory changes and recycling of tariff-revenue, could boost investment and have some knock-off effects on consumption through higher stock prices. However, that will be modest given the first round of TCJA showed that most of the tax savings were passed out in the form of higher dividends and most have expected TCJA, or large parts of it, to be re-extended for some time now.
- The early estimates on the tariff shock suggest the US economy would be modestly dented by a universal tariff of 10% combined an additional 50 percentage point increase on China. The CBO put the hit on long-run GDP at 0.6% from that scenario over a decade but the price level could rise by around 1% from those tariffs likely much sooner than a decade. We're likely to see materially front-loading of imports, which the December goods report showed could be already happening. The latest chatter also has the administration a little less bombastic, with talk of carefully studying trade and trade practices, backing down a bit from the threats to Canada and Mexico. The wild ride on tariffs could be continue for sometime.
- The bottom line here is that GDP could slow a bit more under the Trump administration but likely not enough to worry the Fed. Powell will be more concerned about the price level increases and how that feeds into price and wage expectations in an economy that is still strong and given inflation is not fully there. Today's data reinforces the Fed's wait and see attitude. The underlying pace of growth is still about 3% and the consumer is showing no signs of letting up, a possible indication that they will be able to weather some modest price rises.

Implications & actions

Re: Economic forecast — GDP came below expectations because a significant drag from inventories but the underlying pace of growth remains strong.

Re: Markets — Bond yields dropped on the surprise on headline growth but have since bounced back on the strong details. The dollar also dipped but has partially recovered.

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