

# Economics

## ECONOMIC FLASH!

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### US Economy accelerated in Q4, ahead of Omicron hit

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Annualized Qtrly Chg.	21 Q4	21 Q3	21 Q2	21 Q1	20 Q4	20 Q3
Real GDP	6.9%	2.3%	6.7%	6.3%	4.5%	33.8%
Personal consumption	3.3%	2.0%	12.0%	11.4%	3.4%	41.4%
• Goods	0.5%	-8.8%	13.0%	27.4%	-0.3%	49.5%
• Durable goods	1.6%	-24.6%	11.6%	50.0%	1.1%	89.0%
• Nondurable goods	-0.1%	2.0%	13.9%	15.9%	-1.1%	31.8%
• Services	4.7%	8.2%	11.5%	3.9%	5.3%	37.5%
Gross private investment	32.0%	12.4%	-3.9%	-2.3%	24.6%	82.1%
• Fixed investment	1.3%	-0.9%	3.3%	13.0%	17.7%	27.5%
• Nonresidential	2.0%	1.6%	9.2%	12.9%	12.5%	18.7%
• Structures	-11.4%	-4.1%	-3.0%	5.4%	-8.2%	-15.3%
• Equipment	0.8%	-2.4%	12.2%	14.1%	26.5%	55.9%
• Intellectual Property	10.6%	9.1%	12.5%	15.6%	10.2%	8.0%
• Residential	-0.8%	-7.7%	-11.7%	13.3%	34.4%	60.0%
Exports	24.5%	-5.3%	7.6%	-2.9%	22.5%	54.5%
• Goods	24.4%	-5.1%	6.4%	-1.4%	25.6%	99.0%
• Services	24.8%	-5.9%	10.4%	-6.0%	16.0%	-4.9%
Imports	17.7%	4.7%	7.1%	9.3%	31.3%	89.2%
• Goods	18.3%	-0.3%	4.3%	10.7%	30.1%	103.7%
• Services	14.8%	35.0%	23.6%	2.2%	37.6%	29.7%
Government consumption	-2.9%	0.9%	-2.0%	4.2%	-0.5%	-2.1%
• Federal	-4.0%	-5.1%	-5.3%	11.3%	-3.2%	-5.4%
• National defense	-5.7%	-1.7%	-1.0%	-5.8%	5.3%	1.7%
• Nondefense	-1.6%	-9.5%	-10.7%	40.8%	-14.0%	-14.4%
• State and local	-2.2%	4.9%	0.2%	-0.1%	1.2%	0.1%

Source: Haver Analytics.

- The US economy gained momentum in the fourth quarter as a fading of supply chain issues early on supported inventory restocking. The 6.9% annualized pace of growth was well above the consensus forecast of 5.5% and also reflected contributions from spending on services, business investment in IP products, and exports. Excluding inventories, real final sales grew by a less robust 1.9% annualized. With Omicron likely causing renewed supply chain issues and activity in service sectors hindered by the virus spread, the first quarter of 2022 is likely to see a sub-2% annualized pace of growth before quickly rebounding in the spring as Omicron fades.
- The growth in inventories comes following three consecutive quarters of draw downs on supply chain issues. The restocking was led by the retail and wholesale trade sectors, with the former group's biggest contributor being car

dealerships. Manufacturers still couldn't keep up with demand, as inventories were drawn down, although by less than in previous quarters.

- The fading of supply chain issues also supported progress in two-way trade. Exports rose strongly on broad-based gains in goods categories, while the resumption of tourism in the US led the increase in service exports. The climb in imports also included Americans traveling abroad, but primarily reflected higher imports of non-auto consumer goods that contributed to the restocking of inventories, and capital goods.
- Consumer spending on services was a key contributor to growth, particularly at the start of the quarter before the spread of Omicron began. Spending on healthcare, recreation, and transportation services led the gains, while spending on goods grew very modestly, reflecting a combination of saturated demand and product availability issues in some areas. With Omicron putting the brakes on services in early 2022, goods demand could get a lift for a few more months, but with goods spending still 7% above its pre-pandemic trend as of Q4, there is room for further softness ahead once Omicron is behind us and services are able to reopen more fully. The one outlier is the auto sector in which we expect supply chain disentanglement over 2022 to support sales ahead.
- The drop in residential investment reflected material and labor shortages and was in contrast to the acceleration in housing starts over the quarter. Given the overhang of building permits, and the volume of homes still under construction, as supply bottlenecks ease, we expect to see residential investment grow over 2022. Indeed, home purchase intentions haven't fallen despite the 46bps climb in 30-year mortgage rates so far in 2022.
- Business investment in equipment grew only modestly, as investment in transportation equipment floundered, perhaps reflecting the continuation of supply chain issues. Non-residential structures investment was limited by declines in manufacturing, commercial, healthcare, and power structures, while mining structures was the only sub-component to show growth. Oil rig counts have climbed steadily higher since late 2020, but mining structures investment is still 21% below pre-pandemic levels. While the first quarter should show a continued recovery in that component as oil prices have risen, a full recovery may not be in the cards as futures suggest a fall in prices in the coming years on higher OPEC+ supply. A climb in the software and R&D categories of IP products offset the drop in structures.
- The savings rate fell to 7.4% from 9.5% in Q3, bringing it back in line with pre-pandemic norms. Still, consumers are sitting on ample excess savings as a result of past fiscal stimulus, deferred spending on services, and stock price and real estate valuation gains. That leaves room for consumers to drive a strong rebound in growth once services are able to reopen more fully in the spring months.

## Implications & actions

**Re: Economic forecast** — Omicron's impact on global supply chains could limit the restocking of inventories in the first quarter, and along with the negative impact on service sectors, Q1 is set to see a sub-2% annualized pace of growth. However, with Omicron hospitalizations easing off in recent days, we expect to see a swift rebound in activity by March, in line with the Fed's signal to start hiking rates that month.

**Re: Markets** — There was limited market reaction to the upside surprise as it doesn't change the more subdued outlook for the first quarter.

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