

U.S. Data Review

- Q4 GDP: headline growth close to recent average...
- ...Consumer spending and business investment tilt to the soft side

Michael Moran

Daiwa Capital Markets America
 212-612-6392
 michael.moran@us.daiwacm.com

Q4 GDP

The U.S. economy grew at an annual rate of 2.1 percent in the fourth quarter, quite close to the expected advance of 2.0 percent and identical to the average in the prior four quarters.

Two areas stood out with sizeable contributions, one positive and one negative. On the positive side, net exports contributed 1.48 percentage points to GDP growth, which represented the largest boost in the current expansion. However, the contribution was not especially encouraging because it was driven primarily by weak imports (-8.7 percent) rather than strong exports (1.4 percent). On the negative side, inventory investment was weak, as the slowdown in stock building subtracted 1.09 percentage points from GDP growth. Both of these areas can be noisy, and we suspect that the changes in Q4 contained a dose of random volatility. We would look for both areas to make smaller contributions, and possibly in the opposite direction, in coming quarters.

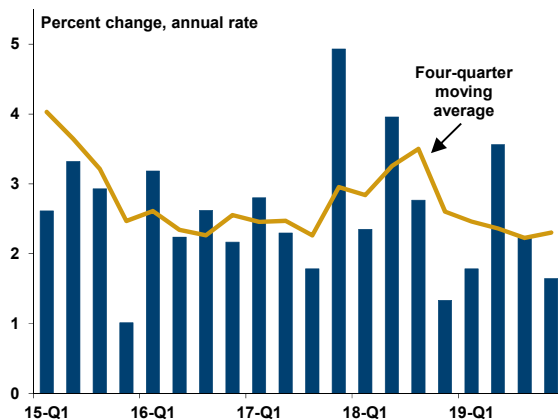
GDP and Related Items*

	19-Q2	19-Q3	19-Q4
1. Gross Domestic Product	2.0	2.1	2.1
2. Personal Consumption Expenditures	4.6	3.2	1.8
3. Nonresidential Fixed Investment	-1.0	-2.3	-1.5
3a. Nonresidential Structures	-11.1	-9.9	-10.1
3b. Nonresidential Equipment	0.8	-3.8	-2.9
3c. Intellectual Property Products	3.6	4.7	5.9
4. Change in Business Inventories (Contribution to GDP Growth)	-0.9	0.0	-1.1
5. Residential Construction	-3.0	4.6	5.8
6. Total Government Purchases	4.8	1.7	2.7
6a. Federal Government Purchases	8.3	3.3	3.6
6b. State and Local Govt. Purchases	2.7	0.7	2.2
7. Net Exports (Contribution to GDP Growth)	-0.7	-0.1	1.5
7a. Exports	-5.7	1.0	1.4
7b. Imports	0.0	1.8	-8.7
Additional Items			
8. Final Sales	3.0	2.1	3.2
9. Final Sales to Domestic Purchasers	3.6	2.2	1.6
10. Gross Domestic Income	0.9	2.1	-
11. Average of GDP & GDI	1.4	2.1	-
12. GDP Chained Price Index	2.4	1.8	1.4
13. Core PCE Price Index	1.9	2.1	1.3

* Percent change SAAR, except as noted

Source: Bureau of Economic Analysis via Haver Analytics

Final Sales to Domestic Purchasers*

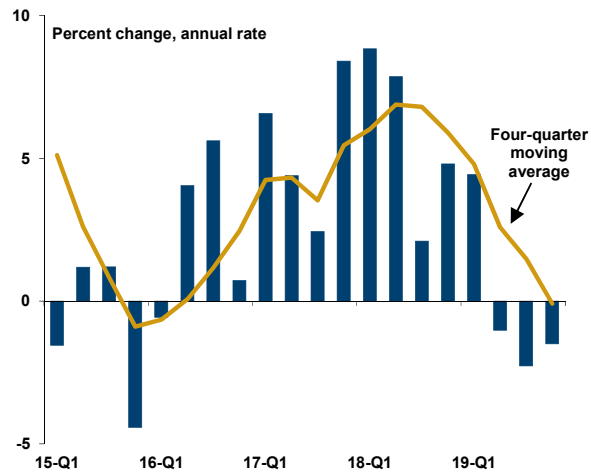


* GDP less net exports and inventory investment.

Sources: Bureau of Economic Analysis via Haver Analytics

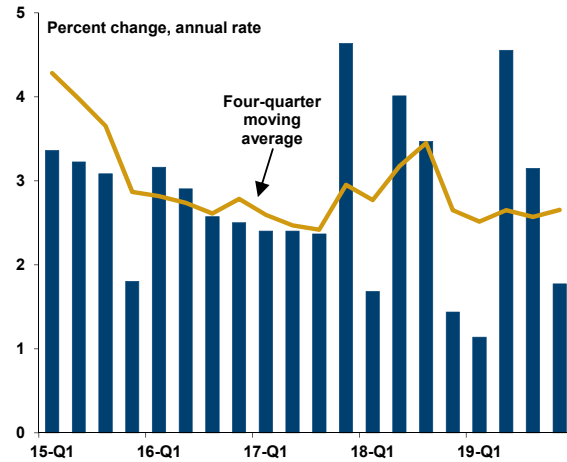
Given the potential for noise in net exports and inventory investment, the best view on Q4 activity is provided by final sales to domestic purchasers, which is GDP less net exports and inventory investment. This measure shows total expenditures (other than for inventories) by domestic entities -- consumers, businesses, or governments. Growth of final domestic purchases totaled 1.6 percent in the fourth quarter, one of the slower advances of the current expansion (chart, left). Business investment constrained activity, as outlays fell 1.5 percent, marking the third consecutive decline and undoubtedly reflecting the many uncertainties in the recent economic environment (chart, next page, left). Consumer spending rose 1.8 percent. This was not the slowest advance of the past few years, but it trailed the recent average of 2.4 percent (chart, next page, right).

Business Fixed Investment



Source: Bureau of Economic Analysis via Haver Analytics

Consumer Spending



Source: Bureau of Economic Analysis via Haver Analytics

Other components of domestic final purchases posted respectable gains. Although households spent lightly on goods and services, they were active in the housing market, as residential construction grew 5.8 percent, marking the second consecutive advance after sliding in the prior six quarters (and in eight of the nine prior quarters). Within the residential component, construction of new homes was firm, and so too were brokerage commissions because of a pickup in home sales. Government spending also registered an above-average increase with a gain of 2.7 percent. Outlays by the federal government grew 3.6 percent, stirred by a jump of 4.9 percent in defense spending. Activity at the state and local level grew 2.2 percent, led by an increase of 6.5 percent in longer-term (i.e. investment) projects. The increase in state and local investment more than offset a drop in Q3 and added to robust gains registered in the first half of the year. Improvement in revenues is allowing state and local governments to address infrastructure needs.