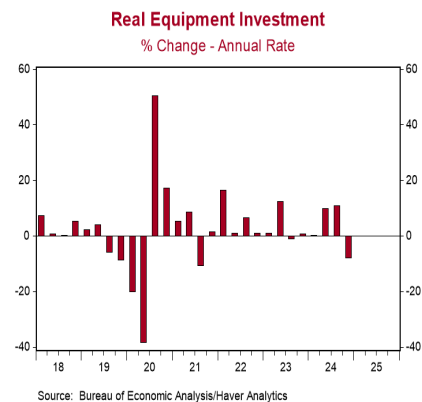
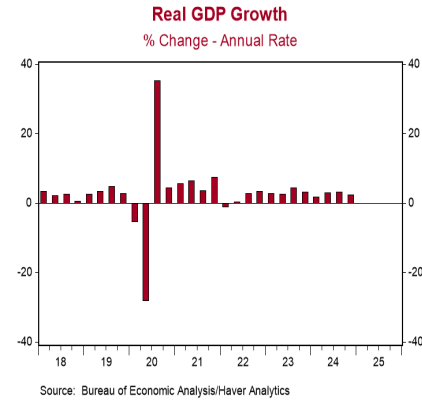


4th Quarter GDP (Initial)

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- Real GDP increased at a 2.3% annual rate in Q4, lagging the consensus expected 2.6%.
- The largest positive contribution to real GDP growth in Q4 came from personal consumption, with a sizeable gain from government purchases, as well. Inventories were the largest drag on growth, while business investment in equipment and commercial construction also declined.
- Personal consumption, business fixed investment, and home building, combined, rose at a 3.2% annual rate in Q4. We refer to this as “core” GDP.
- The GDP price index increased at a 2.2% annual rate in Q4 and is up 2.4% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 4.5% annual rate in Q4 and is up 5.0% from a year ago.



Implications: The US economy grew at a 2.3% annual rate in the fourth quarter, slightly slower than the consensus expected, but slightly faster than the average annualized pace of 2.1% in the past twenty years. The best news in the report was that what we think of as Core Real GDP – consumer spending, business fixed investment, and home building, and excluding the more volatile categories like government purchases, inventories, and international trade – grew at a 3.2% annual rate in the fourth quarter and was up 3.0% versus a year ago. However, there were economic blemishes, as well. Business fixed investment – equipment, commercial construction, and intellectual property – declined at a 2.2% annual rate in Q4 in spite of the boom in AI spending, the first drop since 2021. These investments are crucial to lifting productivity growth in the years ahead. Meanwhile, much of the gain in Real GDP was accounted for by consumer spending, which grew at a 4.2% annual rate and is up 3.2% in the past year. The reason that’s a problem is because some of this growth in consumer spending is unsustainable; the personal saving rate declined to 4.1% in the fourth quarter, well below the 6.7% rate that prevailed pre-COVID. A move by consumers to reassert a higher saving rate again could mean an abrupt slowdown in the growth of consumer spending as well as the production of those goods and services for consumers. We also can’t help but notice the continued abnormally large contribution from federal government spending, which grew at a 3.2% rate in Q4 and is up 4.0% in the past year. Eventually the rapid growth in government will end, and the economy will pay a temporary price. On the inflation front, GDP prices rose at a 2.2% rate in Q4 and are up 2.4% in the past year, still above the Federal Reserve’s 2.0% target. In other news this morning, initial claims for unemployment insurance declined 16,000 to 207,000 last week; continuing claims dropped 42,000 to 1.858 million. These figures signal continued job growth in January. In other recent news, the Richmond Fed index, a measure of mid-Atlantic factory activity, rose to -4 in January after a -10 reading in December. The most under-reported indicator of the week was on the M2 measure of the money supply, which grew at a moderate 4.9% annual rate in December and is up 3.9% from a year ago. M2 soared in 2020-21, heralding the inflation surge that followed. Then M2 fell in 2022-23, signaling some of the drop in inflation. But we just finished 2024 with inflation still above the Fed’s target. As a result, the Fed must be careful with any rate cuts to make sure M2 doesn’t surge again. Look for the Fed to hold the line against rate cuts through at least the Spring unless the economy takes a sudden turn for the worse.

4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-24	Q3-24	Q2-24	Q1-24	4-Quarter Change
Real GDP	2.3%	3.1%	3.0%	1.6%	2.5%
GDP Price Index	2.2%	1.9%	2.5%	3.0%	2.4%
Nominal GDP	4.5%	5.0%	5.6%	4.7%	5.0%
PCE	4.2%	3.7%	2.8%	1.9%	3.2%
Business Investment	-2.2%	4.0%	3.9%	4.5%	2.5%
Structures	-1.1%	-5.0%	0.2%	6.2%	0.0%
Equipment	-7.8%	10.8%	9.9%	0.3%	3.0%
Intellectual Property	2.6%	3.1%	0.7%	7.5%	3.5%
Contributions to GDP Growth (p.pts.)	Q4-24	Q3-24	Q2-24	Q1-24	4Q Avg.
PCE	2.8	2.5	1.9	1.3	2.1
Business Investment	-0.3	0.6	0.5	0.6	0.3
Residential Investment	0.2	-0.2	-0.1	0.5	0.1
Inventories	-0.9	-0.2	1.1	-0.5	-0.1
Government	0.4	0.9	0.5	0.3	0.5
Net Exports	0.0	-0.4	-0.9	-0.6	-0.5

Source: Bureau of Economic Analysis