Markit Economic Research

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United States

US GDP grows 0.8% in final quarter of 2013 in broad-based expansion

- **Economy grows 0.8% in fourth quarter as government shutdown hit activity**
- **Consumer spending and exports rise at fastest rate for three years**
- **Report points to solid growth momentum, and PMIs add to improved outlook for Q1**

The US economy grew by 0.8% in the final quarter of 2013, down from 1.0% in the third quarter. In annualised terms, growth slowed from 4.1% to 3.2%. The further expansion takes the economy 6.5% above its pre-crisis peak.

The 3.2% increase was [in line with the PMI surveys], which we noted back in December "pointed to a resilient growth rate in the region of 3%".

Although growth last year was a modest 1.9% compared to 2.8% in 2012, the acceleration in the rate of growth between the first and second halves of the year suggests that the US economy had good momentum going into 2014.

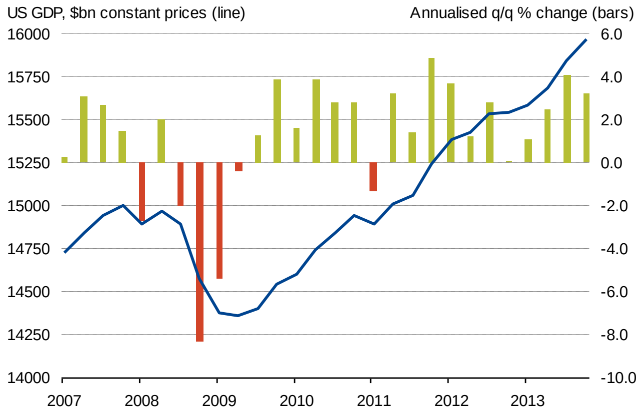
The slowdown in the fourth quarter also needs to be considered alongside the government shutdown in October, which contributed to a 12.6% annualised fall in government spending, and which the PMI surveys indicate caused a disruption to many businesses. The underlying trend is therefore likely to be slightly stronger than the GDP data indicate.

Good outlook

Looking ahead, the flash manufacturing PMIs also signal that the robust growth seen late last year is likely to have persisted into January, with the flash composite index pointing to a slight acceleration in growth compared to December.

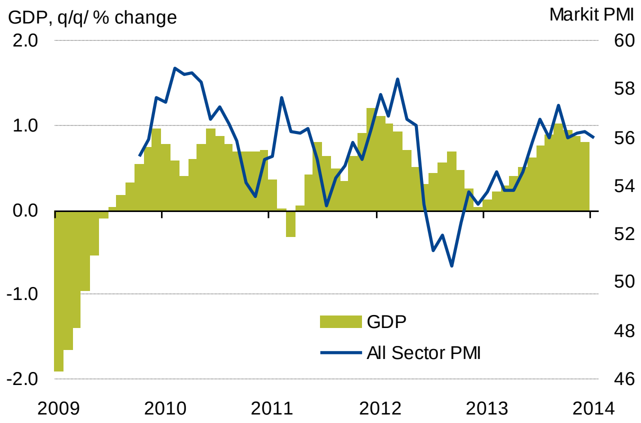
Importantly, the economy is also generating new jobs, and the upbeat PMIs for January add to evidence that the disappointing 74k increase in non-farm payrolls in December represents a temporary blip in an underlying trend which is running at a rate more like 200k per month. Such robust employment growth should help sustain strong growth of consumer spending.

Economic growth

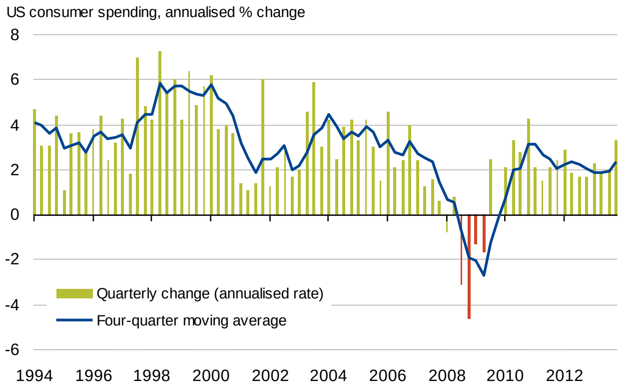


Source: Commerce Department (via Ecowin).

Markit Flash PMIs and GDP



Consumer spending



Source: Commerce Department (via Ecowin).

In the detail of the latest GDP report, inventories contributed less to the latest GDP rise than in the third quarter. Excluding inventories, GDP growth picked up from 2.5% in the third quarter to 2.8%.

Consumer spending rose at an annualised rate of 3.3%, the fastest seen for three years, and business investment spending meanwhile rose at a 3.8% pace. The latter was weaker than seen in the previous two quarters but still represents a reasonably substantial growth rate and adds to the sense that this is a broad-based upturn.

The improvement in the economy didn't just reflect good economic conditions at home: exports surged at an annualised rate of 11.4%, up from 3.9% in the third quarter and the largest rise seen for three years.

With consumer spending set to continue rising at home, economic growth picking up in markets such as Europe and the flash PMIs painting a solid picture of the economy in January, first quarter growth could surpass that seen in the closing quarter of last year.

A concern is that – with inventories still rising – we could see some payback in the first quarter if production gets pulled down as firms seek to reduce their stock levels.

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