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Markit Economic Research

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United States

US economy ended 2013 with more momentum than previously thought

- **Q4 GDP growth revised up from 2.4% to 2.6%**
- **Fastest rise in consumer spending for 3 years**
- **Weather has likely hit economy at start of 2014, uncertain outlook thereafter**

The US economy grew faster than previously thought in the final quarter of last year, with higher consumer spending and business investment on equipment presenting a healthier picture of the economy before the bad weather hit at the start of 2014. The Commerce Department revised up its estimate of annualised growth of gross domestic product from 2.4% to 2.6%.

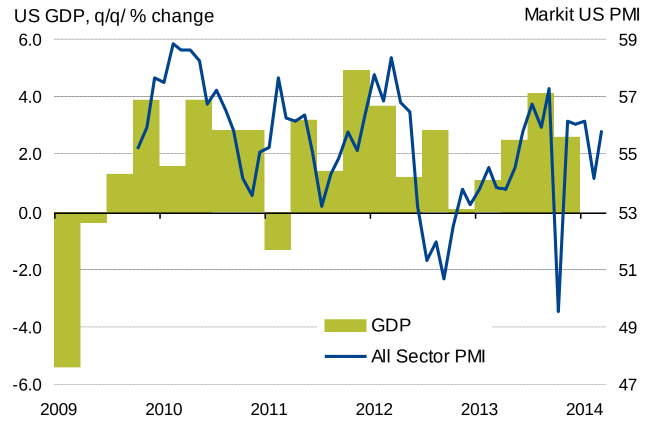
The expansion was slightly weaker than expected. Analysts polled by Reuters had anticipated growth to have been revised up to 2.7%. However, the slowdown from a revised 4.1% pace in the third quarter was in part attributable to the government shutdown in October, so is likely to be of little concern to policymakers.

The breakdown of the GDP release was especially encouraging. An upward revision of final sales (which strips out inventories) from 2.3% to 2.7% points to stronger demand, with consumer spending growth revised up to a three-year high of 3.3% and business spending on equipment also raised higher.

Stronger than expected momentum

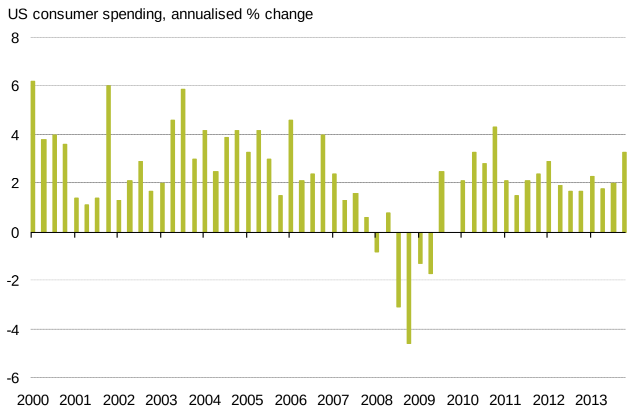
The data suggest that the economy had slightly more momentum than previously thought before it was hit by extreme weather at the start of 2014. Markit's PMI surveys showed that the weather disrupted business across the economy in the first two months of the year, but that a rebound was evident in March. The all-sector PMI recovered from 54.1 in February to 55.8. Even with this rebound, the surveys are signalling annualised GDP growth of a mere 2.5% in the first quarter, but policymakers have already braced themselves for some disappointing numbers for early 2014 and remain committed to tapering the Fed's stimulus such that it will most likely stop buying assets by the fall.

GDP



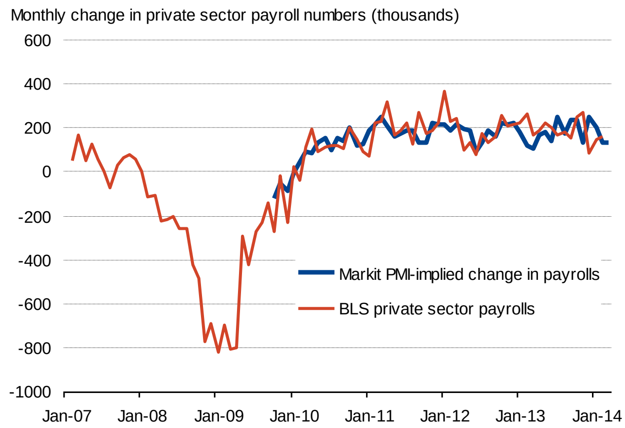
Sources: Ecowin, Markit.

Consumer spending



Source: Commerce Department (via Ecowin).

Employment



Source: Markit, Bureau of Labor Statistics.

Given the willingness of the Fed to 'look through' recent weather affected data, next Friday's non-farm payroll numbers should have little impact on policymakers' views, except of course if the numbers come in super-strong or disastrously weak. Our PMI survey employment index points to private sector payroll growth of approximately 130,000 in March, which is a figure that will worry neither the hawks nor the doves, given the weather disruptions.

More importantly for the course of policymaking, and how long the Fed will decide is appropriate to keep interest rates at their record low, will be how much momentum the economy has retained after the weather impact falls out of the numbers, and that of course includes the need to discount strong rebound numbers as the weaker improves.

A worrying number in this respect is the flash PMI New Business Index for the vast services sector in March, which showed the weakest monthly increase since late-2012. While there's still the possibility that this series was still being subdued by weather effects, many will argue that there's only so long that one can blame the weather.

The last Federal Reserve meeting showed policymakers slightly more hawkish than many had expected. The Open Market Committee upgraded their outlook for the labour market and, while noting that interest rates were not expected to rise until next year, the forecasts indicated that they expected their target rate to be 1.0% by the end of 2015 and 2.25% by the end of 2016 on average, up from 0.75% and 1.75% respectively at the December meeting.

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