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Markit Economic Research

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United States

Fourth quarter GDP contraction revised away to show marginal growth

- **Revised data show 0.1% annualised rate of GDP growth in Q4**
- **Final sales rose 1.7%, in line with expectations**
- **Exports and government spend act as drags**

The US economy is estimated to have grown at an annualised rate of 0.1% in the final quarter of last year rather than having contracted 0.1% as previously estimated. The underlying trend is likely to have been firmer than this headline number suggests, and faster growth is on the cards for the first quarter of this year.

The annualisation of rates of growth used in the US magnifies the growth signal (and of course also acts as a multiplier on the margin of error in these data, which are often heavily revised). Looking at the quarter-on-quarter change, GDP was in fact unchanged compared to the third quarter, as had been initially estimated. The precise quarterly change was merely revised from an initial estimate of -0.04% to +0.03%.

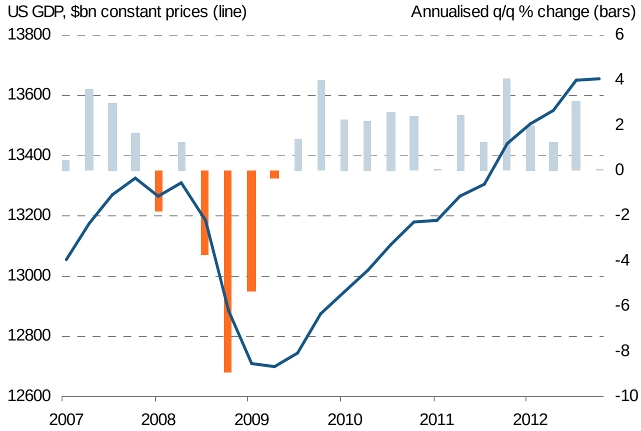
Despite the minor size of the revision, the impact on business confidence should not be underestimated. News of a contracting economy has the potential to cause companies to think twice about whether the timing is right to hire more staff or invest in new plant and machinery. The headline of the US now avoiding contraction should therefore help encourage business expansion. A similar impact on consumer confidence should likewise not be overlooked.

The data available for the first quarter also suggest that the economy is set to see stronger growth than at the end of last year. The flash manufacturing PMI for February indicated that producers were boosting output at the fastest rate for almost two years, and official data showed durable goods orders rising at a robust quarterly rate of 5.0% in January.

Details in the revised GDP report were also encouraging in many respects. Business investment grew at an annualised rate of 9.7%, up from a previously estimated 8.4% and more than reversing a 1.8% decline in the third quarter, and final sales grew at a revised rate of 1.7% compared to 1.1%, albeit down from 2.4% in the third quarter. Consumer spending growth also picked up from 1.6% in the third quarter to 2.1%, showing a reasonable (if unspectacular) ongoing gain.

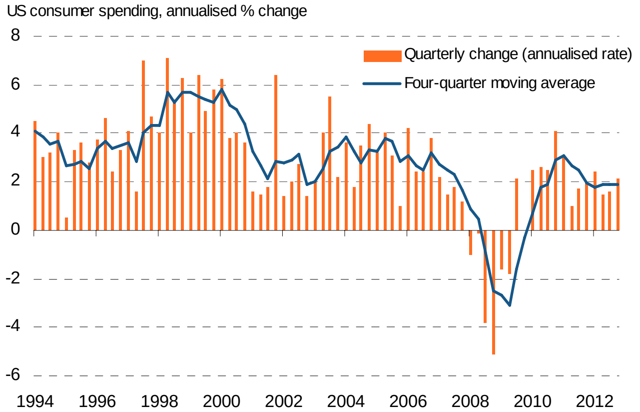
Once a 3.9% annualised drop in exports is factored in, largely reflecting weak growth in Europe, and a 6.9% drop in government purchases, the underlying picture is one of firm underlying growth in the domestic private sector US economy. That will provide little comfort to policymakers, however, as even this underlying pace of economic growth remains far too low to generate satisfactory job creation, suggesting that the stimulus put in place so far by the Fed remains insufficient to bring the jobless rate down to any significant degree.

US gross domestic product



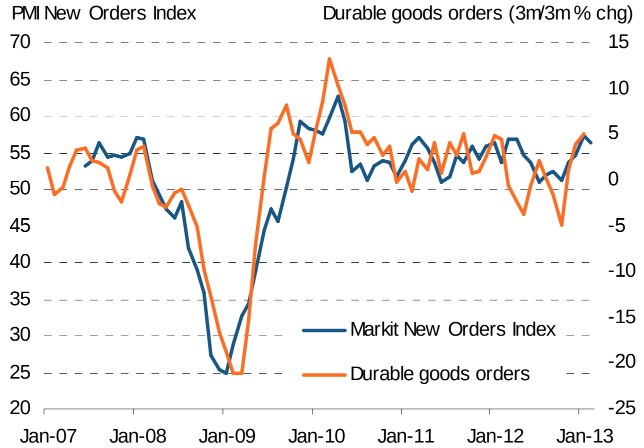
Source: Commerce Department (via Ecowin).

Consumer spending

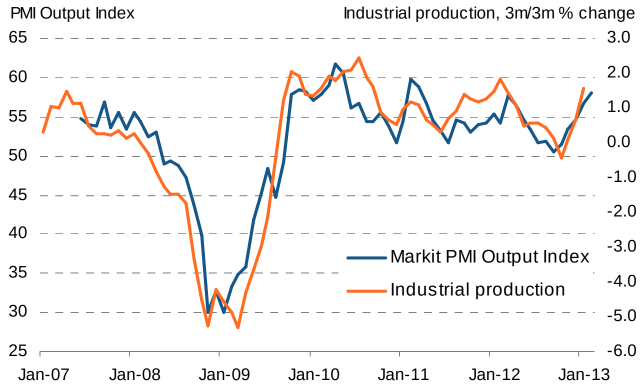


Source: Commerce Department (via Ecowin).

US durable goods orders



US industrial production



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