

United States

Fourth quarter economic growth revised lower but pace remains firm

- **GDP revised down sharply in Q4 but growth remains above post-crisis trend**
- **Investment revised higher, consumer spending and export growth revised down**
- **Weather to cause further slowing in Q1 but Fed likely to look through temporary soft-spot**

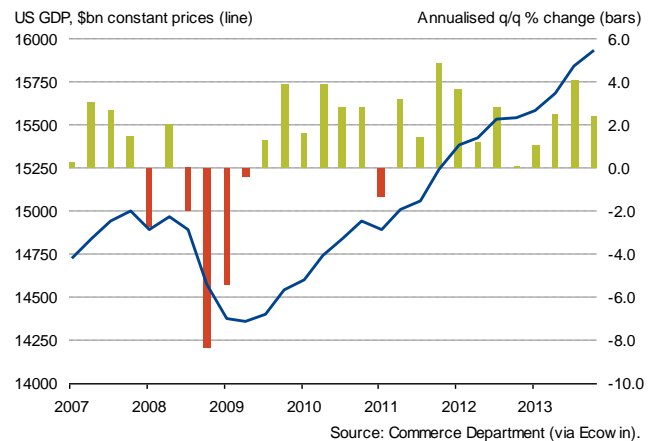
The US economy grew less than previously thought in the closing quarter of last year, but the details of the report suggest that investment is growing at an increased rate and underlying demand continued to expand at a reassuringly robust rate, given the headwinds during the closing months of 2013. Growth may slow further in the first quarter as adverse weather hit the economy, but survey data hint at ongoing underlying resilience which means the Fed is likely to be inclined to continue its taper.

According to the latest official estimates, gross domestic product increased at an annualised rate of 2.4% compared to an initial estimate of 3.2%. That was far weaker than the 4.1% rate seen in the third quarter but nevertheless above the average of 2.2% seen since the economy pulled out of recession in the third quarter of 2009.

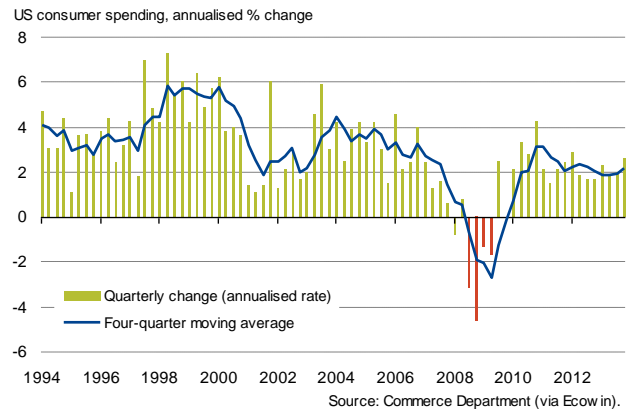
Final sales, essentially a measure of GDP excluding inventories, rose at an annualised rate of 2.3% compared to 2.5% in the third quarter and down from an earlier estimated rate of 2.8%.

The economy, therefore, continued to grow at a reasonably robust rate, which was all the more impressive given the headwinds seen during the fourth quarter. Disruptions and uncertainty caused by the government shutdowns hit the economy in October, only to be followed by the onset of adverse weather in December. December also saw the announcement of the start of the Fed's asset purchase tapering, though some of this impact is likely to have been mitigated by the Fed's forward guidance, which stressed that that it would not raise interest rates until well after the unemployment rate had dropped from 7.0% to below 6.5%

US gross domestic product



Consumer spending



Fed seeks clarity

The Fed now seeks clarity on whether the recent soft patch of economic data merely represents a temporary set-back caused by the usually severe winter weather, or whether a more worrying fundamental slowdown is occurring.

Markit's [flash PMI](#) data showed manufacturing staging a strong rebound in February after suffering weather-related disruptions in January, providing some reassurance to the Fed that the economy is fundamentally sound still.

However, the sister [service sector PMI](#) survey showed ongoing weakness in February. Whereas

manufacturing supply chains may have adapted to the wintery weather, services were affected by people being deterred from activities such as travel and dining out. While services activity should also rebound with the return of more clement weather, there will undoubtedly be a hit to GDP in the first quarter, with the PMIs collectively signalling annualised growth of just 1.6%.

It therefore remains uncertain to what extent the economy has genuinely slowed, but with the flash manufacturing PMI sending a reassuring signal of business bouncing back, the Fed may be inclined to take the optimistic view and maintain its asset purchase tapering until more data become available.

Consumer spending revised down, investment up

In the detail, growth of consumer spending in the fourth quarter was revised down from 3.3% to 2.6%, as retail sales had fared less well than anticipated in the closing weeks of the quarter.

Exports also disappointed, though growth was merely revised down from an annualised pace of 11.4% to 9.4%.

However, more positively, some of the downward revision was attributed to a smaller than previously estimated inventory build-up. Even more encouraging was an upward revision to business investment, which rose at an annualised rate of 7.3% against a prior estimate of 3.8%.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.markit.com

Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited.