

UNITED STATES: GDP GROWTH, GOOD ON THE SURFACE BUT WITH NEGATIVE UNDERCURRENTS

On an annualised basis, US GDP increased 2.9% in the fourth quarter compared to the third. This healthy increase implies only a mild quarterly slowdown. The result was also better than the consensus expectation. However, a detailed analysis shows causes for concern. About half of the increase in GDP reflects inventory rebuilding, although this comes after a negative contribution in the previous two quarters. Personal consumption expenditures have also contributed approximately half of the GDP increase, but investments in structures had a negligible impact and residential investments continue to act as a drag, suffering from high mortgage rates. Moreover, in the final quarter of 2022, GDP only grew 1.0% versus the same quarter of 2021. Despite the apparent resilience in the fourth quarter, the undercurrents are clearly negative, and they should be reinforced by the delayed effects of past rate hikes and the upcoming policy rate increases. Were it not for the strength of the labour market, the talk about recession risk would be even more intense.

The latest US GDP data will have pleased those who like to see the glass as half full. After all, 2.9% quarterly growth (seasonally adjusted at an annual rate, column f in the table) is a healthy increase in GDP, which only implies a mild slowdown compared to the third quarter growth of 3.2%. Moreover, the result was also better than the Bloomberg consensus of +2.6%

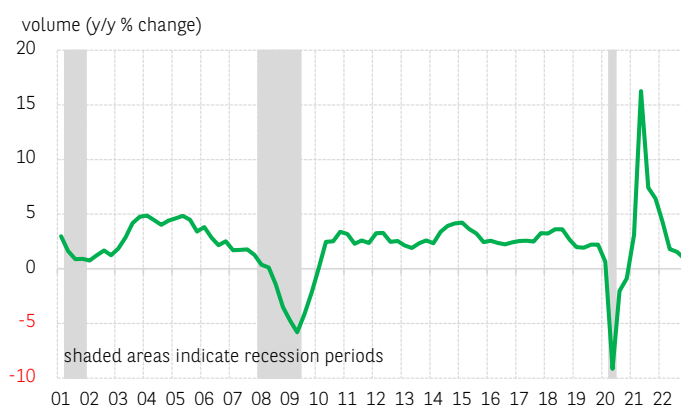
So far for the good news. The 'glass is half empty' camp has an easier task to underpin its cautious view. About half of the increase in GDP reflects inventory rebuilding, with a contribution of 1.46 percentage points to growth (column j of the table). Admittedly, this comes after a negative contribution in the previous two quarters, which makes it difficult to assess to what extent the latest data reflect an unexpected slowdown in demand leading to excess inventories.

Personal consumption expenditures have also contributed approximately half of the GDP increase. At 1.42 percentage points, the contribution is in line with that in the previous two quarters.

The bulk is coming from services. The contribution of durable goods spending has turned positive again -after two negative quarters- but remains very small (0.04 percentage points). The contribution of gross private domestic investment has also become positive again (0.27 percentage points), underpinned by investments in intellectual property products.

Investments in structures had a negligible impact on GDP -after a negative contribution in the first three quarters- and residential investments continue to suffer from high mortgage rates and the drop in housing affordability. The negative contribution of 1.29 percentage points implies that in each quarter of 2022, residential investments have acted as a drag on growth.

US: FINAL SALES TO PRIVATE DOMESTIC SECTOR



SOURCE: FEDERAL RESERVE BANK OF ST-LOUIS, NBER, BNP PARIBAS

For the full year, they have shrunk 10.7% versus 2021 (column a of the table). The contraction is even more spectacular when comparing the fourth quarter of 2022 with the same quarter of 2021: -19.3% (column b).

The same exercise for GDP and some of its components sheds light on the slowdown in the course of 2022: GDP only grew 1.0% (Q4/Q4), gross private domestic investment was down 4.6%, whereas exports growth was resilient (+5.3% versus +7.2% for the year 2022 as a whole).

“ The fourth quarter US GDP showed resilient quarterly growth, but the undercurrents are negative. The delayed effects of past rate hikes and the upcoming policy rate increases should reinforce them. Were it not for the strength of the labour market, the talk about recession risk would be even more intense.



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Import growth however slowed to +1.7% (+8.1% for the year), which paints a gloomy picture about domestic demand. This is illustrated in real final sales to private domestic demand, with a year-over-year growth rate that has slowed significantly (*chart 1*).

Despite the resilience in the fourth quarter, the undercurrents are clearly negative, and they should be reinforced by the delayed effects of past rate hikes and the upcoming policy rate increases. Were it not for the strength of the labourmarket, the talk about recession risk would be even more intense.

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US REAL GDP: GROWTH AND ITS DECOMPOSITION										
	% change from preceding year	% change from Q4 to Q4	% change from preceding quarter				% change at annual rate (GDP) and contribution			
	2022	2022	2022				2022			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	a	b	c	d	e	f	g	h	i	j
Gross domestic product (GDP)	2,1	1	-1,6	-0,6	3,2	2,9	-1,6	-0,6	3,2	2,9
Personal consumption expenditures (PCE)	2,8	1,9	1,3	2	2,3	2,1	0,91	1,38	1,54	1,42
Goods	-0,4	-0,5	-0,1	-2,6	-0,4	1,1	-0,02	-0,6	-0,08	0,26
Durable goods	-0,3	1,1	7,6	-2,8	-0,8	0,5	0,64	-0,2	-0,07	0,04
Nondurable goods	-0,4	-1,4	-4,4	-2,5	-0,1	1,5	-0,66	-0,4	-0,01	0,22
Services	4,5	3,2	2,1	4,6	3,7	2,6	0,93	1,99	1,63	1,16
Gross private domestic investment	3,8	-4,6	5,4	-14,1	-9,6	1,4	0,98	-2,8	-1,8	0,27
Fixed investment	-0,3	-2,7	4,8	-5	-3,5	-6,7	0,83	-0,9	-0,62	-1,2
Nonresidential	3,6	3,7	7,9	0,1	6,2	0,7	0,98	0,01	0,8	0,09
Structures	-7,4	-5,2	-4,3	-12,7	-3,6	0,4	-0,11	-0,3	-0,09	0,01
Equipment	4,3	3,8	11,4	-2	10,6	-3,7	0,55	-0,1	0,53	-0,2
Intellectual property products	8,7	7,9	10,8	8,9	6,8	5,3	0,54	0,46	0,36	0,28
Residential	-10,7	-19,3	-3,1	-17,8	-27,1	-2,7	-0,15	-0,9	-1,42	-1,29
Change in private inventories							0,15	-1,9	-1,19	1,46
Net exports of goods and services							-3,13	1,16	2,86	0,56
Exports	7,2	5,3	-4,6	13,8	14,6	-1,3	-0,53	1,51	1,65	-0,15
Goods	6,3	4,1	-7,2	15,5	17,8	-7	-0,58	1,18	1,38	-0,58
Services	9,2	7,8	1,6	9,9	7,5	12,4	0,06	0,33	0,26	0,43
Imports	8,1	1,7	18,4	2,2	-7,3	-4,6	-2,6	-0,4	1,21	0,71
Goods	6,9	0,8	20,4	-0,4	-8,6	-5,6	-2,38	0,05	1,19	0,72
Services	14,5	6,1	9,1	16,6	-0,8	0,4	-0,22	-0,4	0,02	-0,01
Government consumption expenditures and gross investment	-0,6	0,9	-2,3	-1,6	3,7	3,7	-0,4	-0,3	0,65	0,64
Federal	-2,5	0,2	-5,3	-3,4	3,7	6,2	-0,36	-0,2	0,24	0,39
National defense	-2,8	-0,1	-8,5	1,4	4,7	2,4	-0,33	0,05	0,17	0,09
Nondefense	-2,2	0,6	-1,1	-9,2	2,5	11,2	-0,03	-0,3	0,07	0,3
State and local	0,6	1,3	-0,4	-0,6	3,7	2,3	-0,04	-0,1	0,41	0,25

SOURCE: US BUREAU OF ECONOMIC ANALYSIS.

