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Q4 2023 GDP: Closing The Books On A Surprisingly Strong Year

- › The BEA's initial estimate shows real GDP grew at an annualized rate of 3.3 percent in Q4 2023
- › Consumer spending, government spending, and fixed investment were the main drivers of Q4 growth

The initial estimate from the BEA puts Q4 real GDP growth at an annual rate of 3.3 percent, significantly faster than our above-consensus forecast of 2.2 percent growth anticipated. The contributions from consumer spending, business and residential fixed investment, and government spending were larger than we had anticipated while, rather than acting as drags as our forecast anticipated, inventories and trade added to top-line growth, albeit only marginally in the case of inventories. While this seems as good a time as any to convey our usual caveat about the initial estimate of GDP in any given quarter being based on highly incomplete source data and, as such, prone to sizable revisions, the reality is that barring downward revisions much larger than the typical first-to-third revisions, Q4 growth will still prove to be much stronger than anyone had anticipated at the start of the quarter. Moreover, that growth was spread across all components suggests that growth will endure into 2024 even if we do see some slowing over the first half of the year.

With the initial print on Q4 GDP, we now have our first look at full-year 2023 real GDP growth, which came in at 2.5 percent. Recall that when 2023 started, the vast majority of forecasters had recession as their base case. While we did not, 2023 growth still made a mockery of our initial forecast of 1.1 percent growth for the year as a whole. As a side point, you may see or hear some quote 2023 growth as 3.1 percent, which is the Q4/Q4 increase but is not, as GDP is defined, the same as full-year growth. Full-year growth is based on the average of the quarterly GDP figures, and that this is how the BEA reports annual growth ought to put this matter to rest but, as we've already heard today, does not.

Real consumer spending grew at an annual rate of 2.8 percent in Q4, a bit faster than the 2.6 percent growth we expected, adding 1.91 percentage points to top-line real GDP growth. Despite a decline in spending on motor vehicles, real spending on consumer durable goods rose at a 4.6 percent rate. Note that while price declines on items such as furnishings, appliances, and electronics weigh on the monthly retail sales data reported on nominal terms, adjusting for price changes gives a sense of how solid demand was over the final months of 2023. Real services spending grew at an annual rate of 2.4 percent, with growth in our

measure of discretionary services spending outpacing the broader services category. We've been waiting for discretionary services spending to slow since after the Labor Day holiday and, several months later, we're still waiting. Though it seems a matter of time, it could be that any slowdown in consumer spending will not be as pronounced as we and many others have been expecting, particularly to the extent the labor market holds up and interest rates ease.

Real business fixed investment grew at an annual rate of 1.9 percent in Q4, with growth in each component – equipment/machinery, structures, and intellectual property products. Though slowing from the blistering pace seen over the prior three quarters, structures spending still surprised us to the upside. While we did anticipate the modest growth in outlays on equipment and machinery in Q4, we continue to expect spending in this category to be somewhat weak over 1H 2024 before gathering pace over the second half. Real residential fixed investment grew at an annual rate of 1.1 percent, a second straight increase after nine straight quarters of contraction, and it has been spending on new single family homes that has been the catalyst of this growth. We expect this to remain the case over coming quarters, as we expect the drop in real spending on new multi-family structures in Q4 to be the first of several.

Real government outlays grew at an annual rate of 3.3 percent in Q4, with growth on both the federal and state/local levels. Growth in the latter category is being driven by infrastructure spending, and has been matched on the monthly employment data, which for the past several months have shown robust job growth in this segment. The initial estimate of Q4 inventory accumulation outperformed the monthly data which, to our earlier point, are still far from complete for Q4, making this a prime candidate for revision.

It seems reasonable to expect the pace of real GDP growth to slow over the first half of 2024, particularly to the extent a slowing trend rate of job growth weighs on growth in personal income and, in turn, consumer spending. That said, with inflation decelerating further and interest rates easing, the economy may continue to hold up better than we expect.

