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Q4 2025 GDP – 1st Estimate: Private Sector Ended 2025 On Solid Footing

- › The BEA’s initial estimate shows real GDP grew at an annualized rate of 1.4 percent in Q4 after growth of 4.4 percent in Q3
- › Consumer spending and business fixed investment were the main drivers of Q4 growth while the government shutdown was a drag on growth

The BEA’s initial estimate shows real GDP grew at an annual rate of 1.4 percent in the fourth quarter of 2025, below what we (1.8 percent) and the consensus (2.8 percent) anticipated. Right off the bat, there are two points to make here. One, as we had for some time cautioned would be the case, the federal government shutdown was a meaningful drag on Q4 growth, knocking 1.15 percentage points off top-line real GDP growth, most of which will be made up for in the Q1 2026 data. Two, the GDP Price Index rose at an annualized rate of 3.6 percent, much faster than we and the consensus anticipated, though this too was impacted (biased higher) by the shutdown, and this too will be reversed in the Q1 2026 data. The spike in the GDP Price Index did depress measured real GDP growth, with nominal GDP having grown at a 5.1 percent rate in Q4. We routinely note that we consider real private domestic demand – combined business and household spending adjusted for price changes – as the more reliable guide to the underlying health of the U.S. economy, and that is especially the case with the Q4 data given the impact of the shutdown. Real private domestic demand grew at an annual rate of 2.4 percent in Q4, a bit lighter than we anticipated but we would not be surprised to see this revised higher. We’ll toss out our usual caveat that the initial estimate of GDP in any given quarter is based on highly incomplete source data and, as such, prone to sizable revision as revised and more complete source data become available. As the data now stand, real GDP grew by 2.2 percent in 2025, down from 2.8 percent growth in 2024 but still impressive given the hurdles thrown in the economy’s path over the course of 2025. The disruptions stemming from the government shutdown impacted the Q4 headline growth print but the details of the data line up with how we’ve assessed the economy. The growth in real private domestic demand suggests the economy carried positive momentum into 2026, which will be amplified by fiscal policy over the next few quarters.

Real consumer spending grew at an annual rate of 2.4 percent in Q4, but that growth was more than accounted for by growth in services spending as real goods spending fell at a 0.1 percent rate. That decline, however, is due to a sharp decline in outlays on new motor vehicles during Q4 after the looming expiration of EV tax credits boosted vehicle sales in August

and September, with payback coming from Q4 sales. Real spending on services grew at a 3.4 percent rate in Q4.

Real business fixed investment grew at a 2.6 percent rate in Q4, with an eighth straight quarterly contraction in structures spending acting as a drag on growth in overall fixed investment. In contrast, real spending on equipment and machinery grew at a 3.2 percent rate and real spending on intellectual property products grew at a 7.4 percent rate. Growth in the former was held down by weakness in spending on trucks/buses, where spending fell at better than a forty percent rate. The monthly data on core capital goods orders suggest stronger and more broadly based growth in business investment, and that will ultimately be reflected in the GDP data. At the same time, research and development and computer software comprise the bulk of the intellectual property products category, which is an early indicator of patterns in labor productivity growth.

Adjusted for price changes, the trade deficit was slightly narrower in Q4 than was the case in Q3, which turned out to be more or less a wash, adding just 0.08 percentage points to top-line real GDP growth. It isn’t clear to us, however, whether the BEA’s initial estimate of Q4 GDP incorporates the December trade data released earlier this week, so the modest add to Q4 real GDP growth could easily turn into a modest drag in the revised data. At the same time, a smaller drawdown in business inventories than seen in Q3 added 0.21 percentage points to top-line real GDP growth. After having surged in Q1 2025 as businesses raced to front run anticipated tariff increases, business inventories fell over the final three quarters of the year, and it could be that depleted inventories are at least a modest support to manufacturing output over coming months.

Federal government spending fell at a 16.6 percent rate in Q4, with defense outlays down at a 10.8 percent rate and non-defense outlays down at a 24.1 percent rate. As noted above, much of the decline in non-defense outlays reflects the shutdown and, as such, will be reversed in the Q1 2026 data. We think solid growth in real private domestic demand to be the more relevant indicator, and with support from last year’s tax bill and strong momentum in business investment, we see real GDP growth shaping up to be closer to 3.0 percent than to 2.0 percent in 2026.

