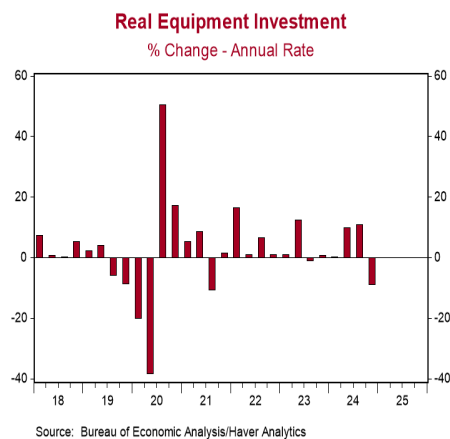
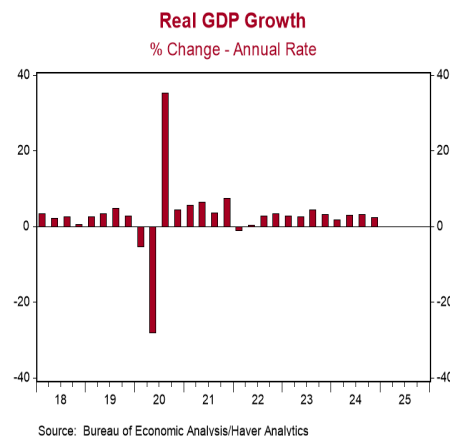


# 4<sup>th</sup> Quarter GDP (Preliminary)

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- Real GDP growth in Q4 was unrevised at a 2.3% annual rate, matching consensus expectations.
- Upward revisions to inventories, net exports, and government purchases offset downward revisions to personal consumption and business investment.
- Personal consumption, business fixed investment, and home building, combined, rose at a 3.0% annual rate in Q4. We refer to this as “core” GDP.
- The GDP price index was revised higher to a 2.4% annual growth rate from a prior estimate of 2.2%. Nominal GDP growth – real GDP plus inflation – was revised higher to a 4.8% annualized rate from a prior estimate of 4.5%.

**Implications:** Real GDP was unrevised at a 2.3% annual growth rate for the fourth quarter, with slight upward revisions to inventories, net exports, and government purchases that were offset by downward revisions to business investment in intellectual property and consumer spending. To analyze the growth trends more accurately, we follow "core" GDP, which includes consumer spending, business fixed investment, and home building, while excluding government purchases, inventories, and international trade, which are too volatile for long-term growth. “Core” GDP was revised lower to a still-respectable 3.0% annual rate from a prior estimate of 3.2% in Q4. Despite solid core growth, there were some economic blemishes in the report. Business fixed investment – equipment, commercial construction, and intellectual property – declined at a 3.2% annual rate in Q4 in spite of the boom in AI spending, the first drop since 2021. These investments are crucial to lifting productivity growth in the years ahead. Meanwhile, much of the gain in Real GDP was accounted for by consumer spending, which grew at a 4.2% annual rate and is up 3.1% in the past year. The reason that’s a problem is because some of this growth in consumer spending is unsustainable; the personal saving rate declined to 3.8% in the fourth quarter, well below the 6.7% rate that prevailed pre-COVID. A move by consumers to reassert a higher saving rate again could mean an abrupt slowdown in the growth of consumer spending as well as the production of those goods and services for consumers. We also can’t help but notice the continued abnormally large contribution from federal government spending, which was revised upward to a 4.0% annual rate in Q4 versus a prior estimate of 3.2% and is up 4.2% in the past year. Now, with DOGE-related spending cuts in Washington, that rapid growth in government is ending and the economy may pay a temporary price. Regarding monetary policy, today’s inflation news confirms the Fed’s battle is not over. The GDP price index was revised upward to 2.4% annual growth rate in the fourth quarter from a prior estimate of 2.2%. These prices are up 2.5% in the past year, barely an improvement from the 2.6% reading in the year ending in Q4 2023. In turn, do not expect any rate cuts from policymakers for at least the next couple of meetings.



<b>4th Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q4-24</b>	<b>Q3-24</b>	<b>Q2-24</b>	<b>Q1-24</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>2.3%</b>	3.1%	3.0%	1.6%	2.5%
<b>GDP Price Index</b>	<b>2.4%</b>	1.9%	2.5%	3.0%	2.5%
<b>Nominal GDP</b>	<b>4.8%</b>	5.0%	5.6%	4.7%	5.0%
<b>PCE</b>	<b>4.2%</b>	3.7%	2.8%	1.9%	3.1%
<b>Business Investment</b>	<b>-3.2%</b>	4.0%	3.9%	4.5%	2.2%
<b>Structures</b>	<b>1.1%</b>	-5.0%	0.2%	6.2%	0.6%
<b>Equipment</b>	<b>-9.0%</b>	10.8%	9.9%	0.3%	2.7%
<b>Intellectual Property</b>	<b>0.0%</b>	3.1%	0.7%	7.5%	2.8%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q4-24</b>	<b>Q3-24</b>	<b>Q2-24</b>	<b>Q1-24</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>2.8</b>	2.5	1.9	1.3	2.1
<b>Business Investment</b>	<b>-0.5</b>	0.6	0.5	0.6	0.3
<b>Residential Investment</b>	<b>0.2</b>	-0.2	-0.1	0.5	0.1
<b>Inventories</b>	<b>-0.8</b>	-0.2	1.1	-0.5	-0.1
<b>Government</b>	<b>0.5</b>	0.9	0.5	0.3	0.5
<b>Net Exports</b>	<b>0.1</b>	-0.4	-0.9	-0.6	-0.5

Source: Bureau of Economic Analysis