PANTHEON™
MACROECONOMICS

Datanote: GDP, Q4 Advance Estimate

In one line: Tariff front-running prompts a surge in consumption; capex hit by Boeing strike

- Q4 GDP rose at a 2.3% annualized rate, a bit below the consensus, 2.6%.
- The core PCE deflator increased at a 2.5% rate, in line with the consensus.
- The GDP deflator rose at a 2.2% rate, a bit below the consensus, 2.5%.

Economic growth became increasingly reliant on households last year, with the 4.2% surge in consumers' spending in Q4 driving essentially all of the overall increase in GDP, offsetting a big drag from inventories and weakness in investment. The further leap in consumption also underpinned 3.2% growth in final sales to private domestic purchasers. However, we would caution against concluding that underlying domestic demand remains unassailably strong. We think that a substantial share of the gain in consumption in Q4 reflected households pulling forward purchases in anticipation of tariffs threatened by the new administration. Spending on durable goods surged by a remarkable 12.1% while consumption of nondurables rose by 3.8%, still very strong but a slightly weaker increase than in Q3. Meanwhile, services spending increased by 3.1%, roughly in line with its recent trend. The boost to consumption from pre-emptive purchases of durables likely will continue to support spending in at least the early part of Q1. But this lift likely will unwind sharply later this year as tariffs are either imposed or the threat to apply them fades.

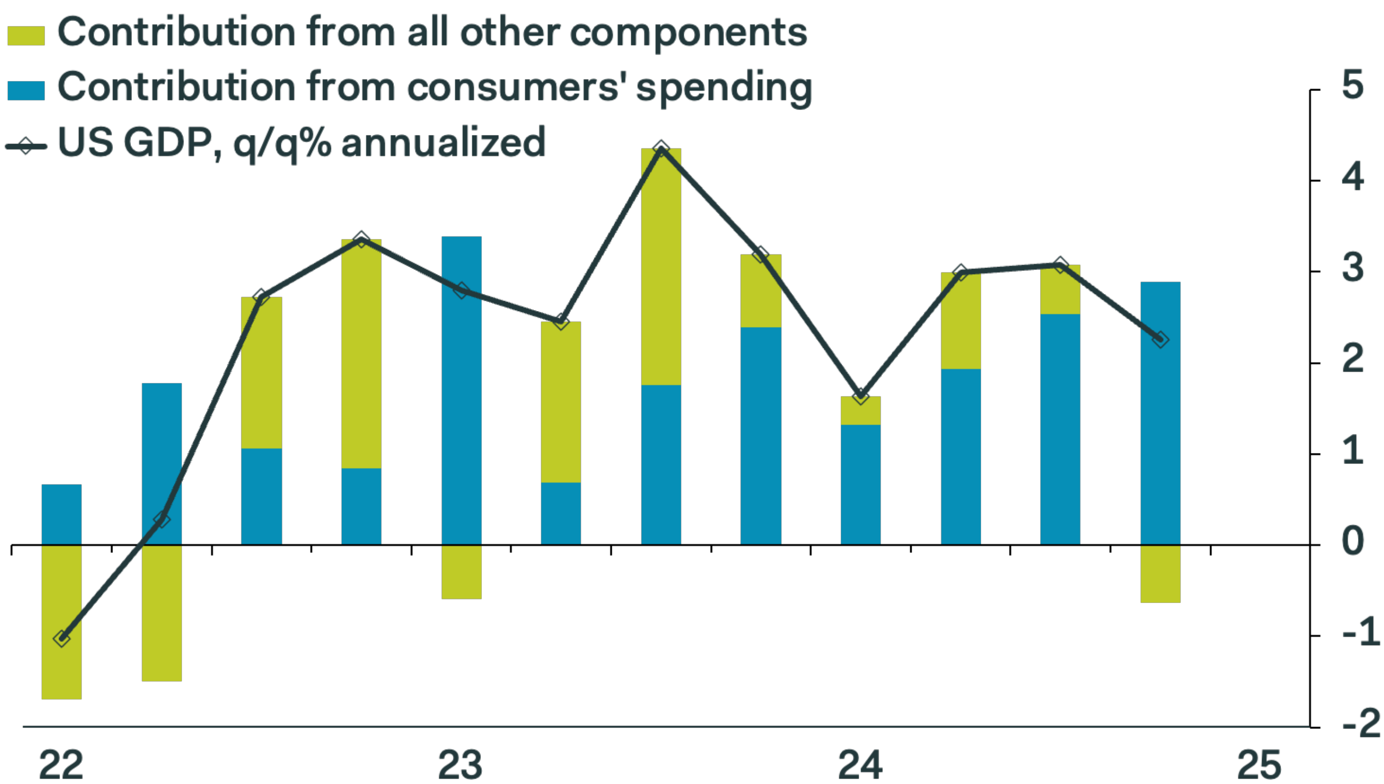
The 0.6% drop in private fixed investment, meanwhile, was the first decline since Q4 2022, and suggests that high interest rates remain a major headwind. Nonresidential structures investment followed its 5% decline in Q3 by falling by 1.1% in Q4, and this component seems unlikely to provide much support for the foreseeable future, now that the boost to growth from the CHIPS Act has faded. The 5.3% rebound in residential investment was underpinned by a jump in home sales which will almost certainly unwind in Q1 given the rebound in mortgage rates since the fall, while IP & software investment climbed 2.3%, signaling a continuing, though gradual, slowdown. The 7.8% drop in overall equipment investment is less terrible than it looks, given that aircraft investment has swung even more wildly than usual of late, due to the Boeing strike that ran from mid-September to early November. But equipment investment ex-aircraft still dropped by 2.4%, also the weakness outturn since Q4 2022.

Government spending, meanwhile, rose by 2.5% in Q4, slightly softer than the recent trend, and at least some slowdown seems likely, given that growth in S&L government revenues is far weaker than a year ago. Moreover, the new administration clearly intends to take a knife to federal employment and spending. Net foreign trade was broadly neutral for overall growth, as both exports and imports dipped marginally; that's a big surprise after yesterday's December trade data and a downward revision seems a decent bet. The 0.9 percentage point drag on growth from private inventories, meanwhile, most likely reflects pre-emptive consumer purchases overwhelming retailers' and wholesalers’ ability to restock. The ongoing threat of tariffs provides a strong incentive to rebuild inventories in the near term, although the net boost to GDP would be limited if that rebuild mostly reflects greater imports. If, as we suspect, consumption growth slows sharply over the next few quarters—as the labor market continues to soften and now depleted excess savings means the saving rate creeps up—then the roughly two-year period of GDP consistently growing by around 3% is now over.

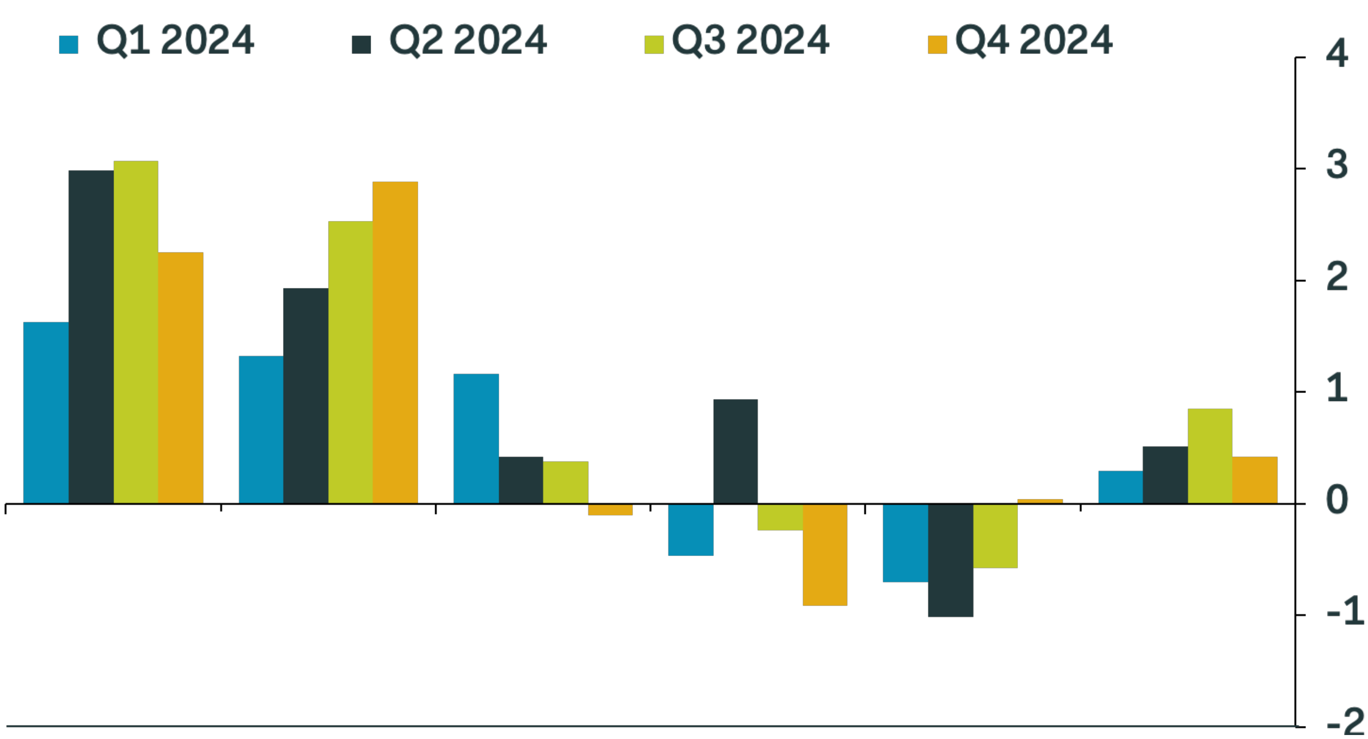
Meanwhile, the 2.5% quarterly increase in the core PCE deflator in Q4 implies a 0.17% month-to-month increase in December, assuming data for October and November are unrevised. That points to slight downside risk to our 0.19% forecast, which can never be pinpointed accurately, as some components are derived from data that are unavailable prior to publication, and the BEA's seasonal adjustment method is impossible for external observers to replicate perfectly.

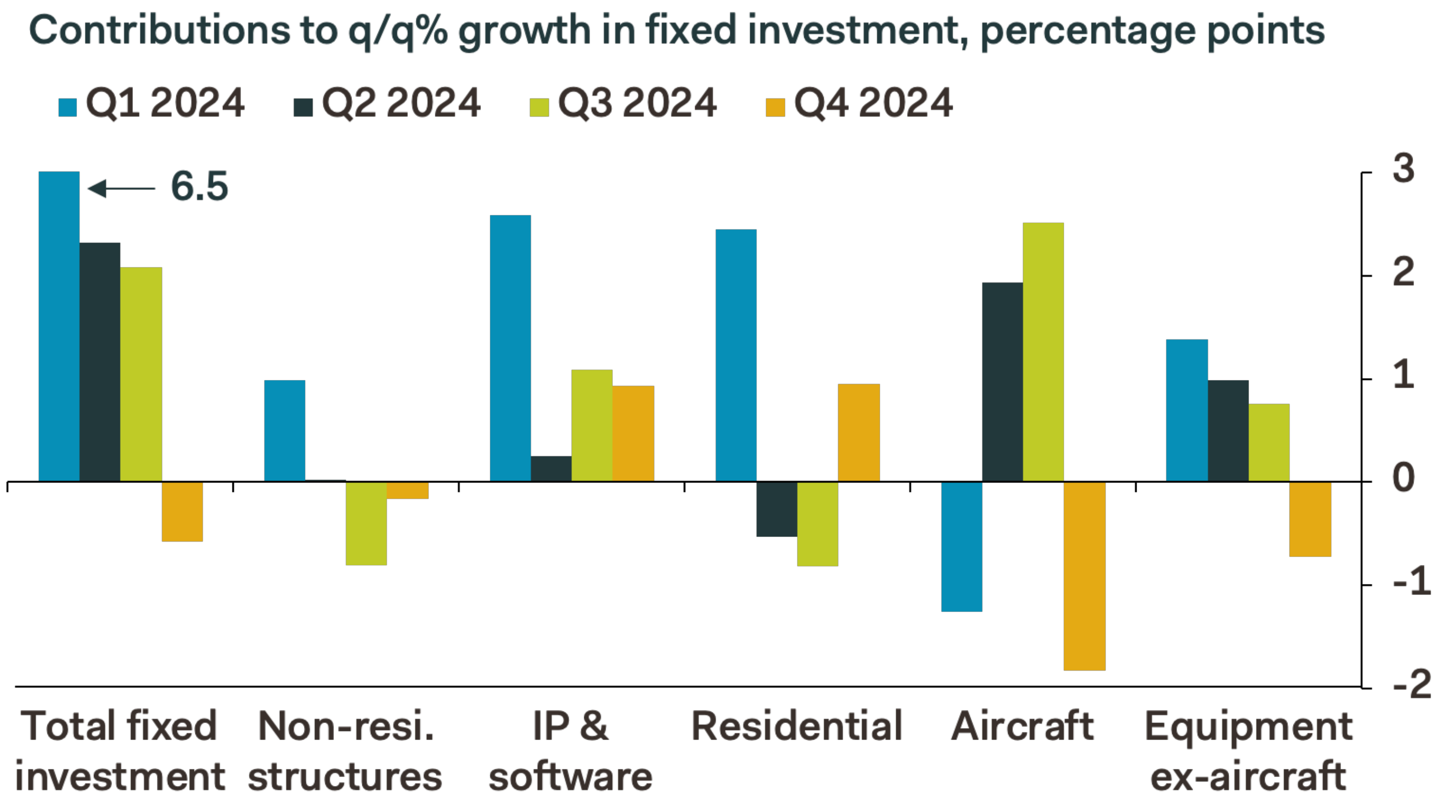
In any case, the Q4 average inflation rate of 2.8% exactly matched the FOMC's forecast, and we expect renewed progress towards the 2% target in Q1. Services sector surveys indicate that fewer businesses than a year ago are implementing start-of-the-year price rises. In addition, a smaller rise in portfolio management charges than a year ago likely will subtract about 0.05pp from core PCE inflation in January.

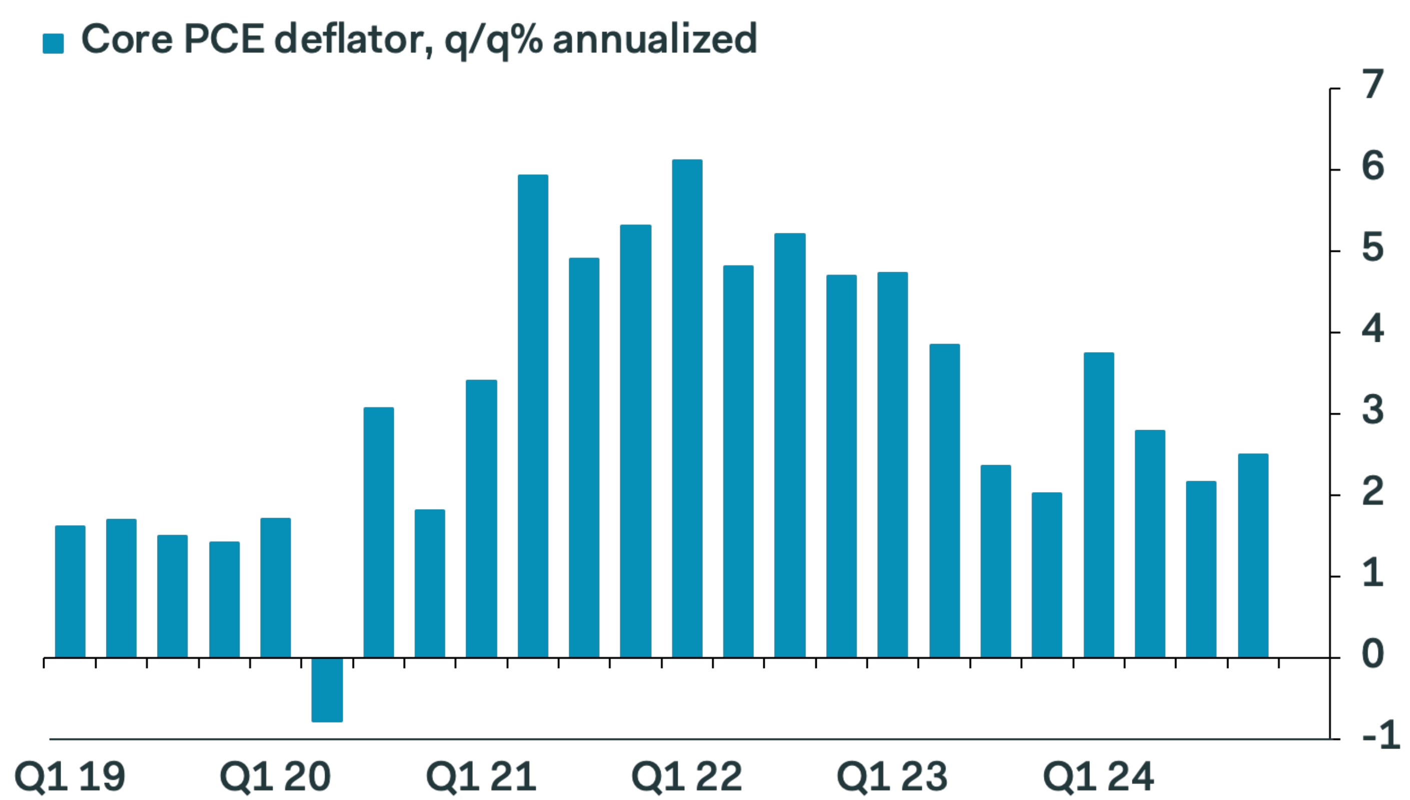
A pullback in used car prices, after a period of strong replacement demand following hurricanes, and in prices for air transportation after a frenetic holiday travel season, will drive down core PCE inflation too. Accordingly, we think that core PCE inflation will drop to 2.6% in January, from 2.8% in December, keeping the option of a March easing in Fed policy on the table, provided the labor market weakens too.



Contributions to q/q% growth in GDP, percentage points




Contributions to q/q% growth in fixed investment, percentage points
Q1 2024
Q2 2024
Q3 2024
Q4 2024
6.5
3
2
1
0
-1
-2
Total fixed investment
Non-resi. structures
IP & software
Residential
Aircraft
Equipment ex-aircraft


Core PCE deflator, q/q% annualized
7
6
5
4
3
2
1
0
-1
Q1 19
Q1 20
Q1 21
Q1 22
Q1 23
Q1 24