

ECONOMIC NEWS

The US Closed Out 2022 with Solid Real GDP Growth, but It Isn't All Good News

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HIGHLIGHTS

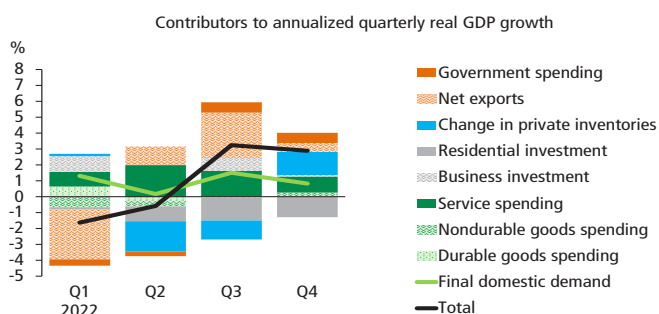
- ▶ According to the advance estimate released today by the U.S. Bureau of Economic Analysis, real GDP increased at an annualized rate of 2.9% in the fourth quarter of 2022. For the year, real GDP expanded 2.1% after posting strong growth of 5.9% in 2021.
- ▶ Real consumer spending rose at an annualized rate of 2.1% in the fourth quarter. Spending on durable goods climbed 0.5%, while spending on nondurable goods was up 1.5%. Growth in service spending slowed to 2.6% after increasing an average of 4.1% over the previous two quarters.
- ▶ Nonresidential fixed investment increased a mere 0.7%. Nonresidential construction rose 0.4%, its first quarterly gain since early 2021. Investment in equipment was down 3.7%, but investment in intellectual property products increased 5.3%. Residential investment plunged 26.7%, its seventh straight quarterly decline.
- ▶ Change in private inventories jumped from +US\$38.7 billion to +US\$129.9 billion, adding a hefty 1.46 percentage points to real GDP growth.
- ▶ International trade contributed a 0.56 percentage points of its own. Real exports fell 1.3%, while real imports were down 4.6%.
- ▶ Government spending rose 3.7%.

COMMENTS

The US economy had a rough start to 2022, recording two straight quarterly declines. But it rebounded in the second half of the year. It beat forecaster expectations for the fourth quarter, posting a solid 2.9% gain. The news isn't all good, however. Final domestic demand rose at an annualized rate of just 0.8%

GRAPH

Much of the Growth Came from Private Inventory Investment as Domestic Demand Weakened



Sources: Bureau of Economic Analysis and Desjardins Economic Studies

in the fourth quarter. Spending grew less than expected, likely reflecting a disappointing holiday shopping season. There were also ominous declines in equipment investment, residential investment, and imports and exports. The fourth quarter data shows signs of a slowing domestic economy, and private inventory investment won't be able to hide that forever. Inventories will have to adjust eventually, too.

IMPLICATIONS

Real GDP came in slightly stronger than expected in the last quarter of 2022, but domestic demand growth was weak. And while we may see a few more interest rate hikes in the US, there are clear signs that the economy is cooling. The Federal Reserve will have to slow and eventually pause its monetary tightening—assuming inflation comes down as expected.