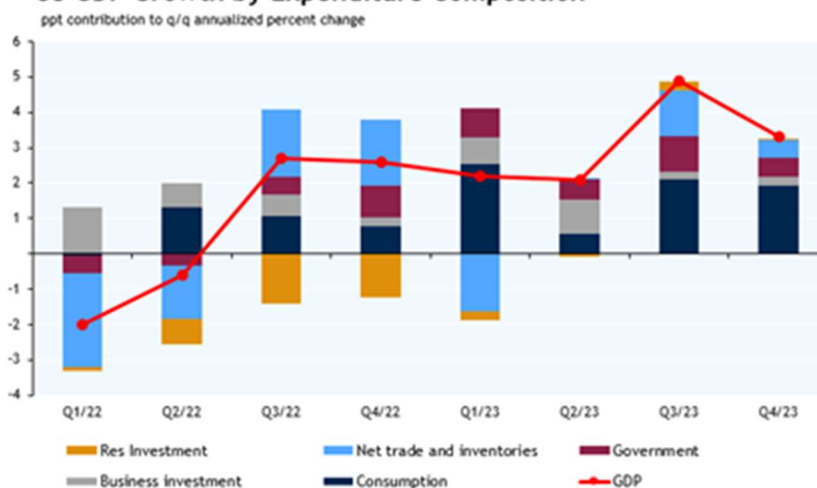


January 25, 2024

U.S. GDP strong in Q4 alongside moderate price growth

- U.S. Q4 GDP jumped another solid 3.3% (annualized) in Q4 after surging by 4.9% in the third quarter. That leaves the annual growth rate in 2023 at 2.5%, up from 1.9% in 2022.
- Consumer spending remained the main contributor of the growth in Q4. Goods spending came in a little weaker than in Q3, at 3.8%, with durables up by 4.6% and non-durables up 3.4%. Service spending continued to grow at 2.4%, slightly up from Q3.

US GDP Growth by Expenditure Composition



- But price growth moderated despite that stronger demand. Growth in the PCE deflator slowed to an annualized 1.7% from Q3. And “core” (ex. food and energy) price growth held at 2% on that basis.
- Business investment in structures continued to grow in Q4, although the pace was the slowest since Q3/22. But investment in machinery and equipment rose after falling in Q3.
- And residential investments went up by 1% after a sharp increase in Q3, consistent with current housing market trends. Home resales fell sharply again in Q4 but housing starts rebounded 6%.
- Net trade added to GDP growth with exports (+6.3%) rising more than imports (+1.9%).
- One of the few soft spots in an otherwise firm round of data was that household spending growth once again outpaced income growth to leave the saving rate down slightly in Q4.
- **Bottom line:** The U.S. economy remained resilient through the end of 2023, with output growth for the full year accelerating from 2022’s gain despite sharply higher interest rates. There are still signs

Abbey Xu | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-6638

For more economic research, visit our website at <https://thoughtleadership.rbc.com/economics/>

that economic momentum is slowing – the household saving rate continues to run below pre-pandemic levels and declining job openings are flagging a softening in the labour market. But inflation has also slowed without the amount of economic pain that was feared when the Federal Reserve started aggressively hiking interest rates to cool an overheating economy and price growth. We continue to look for U.S. GDP growth to slow in the first half of 2024 and for the unemployment rate to drift higher. But a softer economy and slower price growth are expected to allow the Fed to begin to ease off the monetary policy brakes by pivoting to moderate interest rate cuts by mid-year.

US Quarterly GDP Summary					
	Q1-23	Q2-23	Q3-23	Q4-23	Q4-23
					y/y %
GDP	2.2	2.1	4.9	3.3	3.1
Consumer spending	3.8	0.8	3.1	2.8	2.6
Business investment	5.7	7.4	1.5	1.9	4.1
Residential investment	-5.3	-2.2	6.7	1.0	-0.1
Exports	6.8	-9.3	5.4	6.3	2.1
Imports	1.3	-7.6	4.2	1.9	-0.2
Net exports (q/q annl contribution)	0.6	0.0	0.0	0.4	
Inventories (q/q annl contribution)	-2.2	0.0	1.3	0.1	
Household disposable income (q/q %)	3.7	1.4	0.7	1.0	7.0
Saving rate (%)	4.8	5.1	4.2	4.0	

Source: Bureau of Economic Analysis, RBC Economics