Data Release: U.S. real GDP growth revised down to 2.2% in the fourth quarter

- U.S. real GDP grew by 2.2% (annualized) in the fourth quarter of 2014 according to the BEA's second estimate. This marked a downward revision from the original estimate of 2.6%, but still beat the consensus expectation for 2.0%. For the year as a whole, real GDP grew by 2.4% in 2014.

- There were downward revisions across a number of categories including inventory investment, net exports, consumer spending, and residential construction.

- The contribution to real GDP growth from inventories was revised down 0.7 percentage points to a modest 0.1 percentage points (down from an estimated 0.8 pp previously).

- Personal consumption growth was revised down slightly to 4.2% (from 4.3%) on lower goods consumption growth (4.5% from 5.4%). Services spending growth was revised up to 4.1% (from 3.7%)

- Both imports and export growth was revised up, but imports to a higher degree (from 8.9% to 10.1%). Exports edged up to 3.2% (from 2.8%). As a result the contribution from net-exports fell to -1.2 pp (from -1.0 previously).

- On the plus side, non-residential investment growth was revised up to 4.5% (from 2.3%). Structures, equipment, and intellectual property product investment were all revised up from the first estimate.

Key Implications

- The downward revision to fourth quarter economic growth was expected. The good news is that the number was not as bad as anticipated, largely on a smaller than anticipated drag from net-exports. What is more, final domestic demand – spending by American households and businesses – was revised up to 3.2% and has now grown above 3.0% for three straight quarters. This forms the basis of our optimism for U.S. growth over the next year. Supported by falling energy prices and rising wages, consumer spending should continue to lead economic growth. (For more on the consumer outlook please see our report published earlier this week).

- The fly in the ointment is flagging labor productivity. The mismatch between the strength in the labor market (total private labor hours worked rose 4.1% in the fourth quarter) and economic output is explained by declining labor productivity. With the fall in the fourth quarter, output per hour worked (of non-farm private businesses) has not grown over the past year. As the labor market moves closer to full health this suggests a slower speed limit on future U.S. economic growth.

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