Data Release: Final estimate of fourth quarter real GDP remains unchanged at 2.2%

• Real gross domestic product remained unchanged at 2.2% annualized in the fourth quarter of last year according to the BEA's final estimate. The number came in a touch below the median consensus forecast, which called for a slightly stronger increase to 2.4%.

• Personal consumption expenditures were revised higher (from 4.2% to 4.4%), with the gains concentrated across all three components. Services were revised up to 4.3% (from the previous reading of 4.1%), durables up to 6.2% (from 6.0%) and non-durables goods up to 4.1% (from 3.8%).

• Net exports contribution to real GDP growth was revised down to -1.0 percentage points (previously -1.2pp), as exports were revised higher (4.5% from 3.2%), while import growth fell slightly (10.1% from 10.4%).

• Fixed non-residential investment was revised down by 0.1 percentage points (pp) to 4.7%, as gains in structures (revised up to 5.9% from 5.0%) were more than offset by the downward revisions to both equipment (0.6% from 0.8%) and intellectual property products (10.3% from 10.9%). In addition to weaker non-residential investment, private inventories subtracted 0.2pp from headline GDP, as its contribution to growth was revised down to -0.1pp from +0.1pp in the previous estimate.

Key Implications

• There were no surprises in this report, with the headline number remaining unchanged relative to the BEA's second fourth quarter estimate of real GDP. Having said that, our current tracking has real GDP growth slowing to 1.7% (annualized) in the first quarter of this year, but nonetheless still averaging 3.0% for the year as a whole – the strongest annual pace in a decade.

• Helping lead the way will be continued strengthening in consumer demand. Indeed, recent retail sales data have been nothing to brag about, but a large portion of the weakness can be attributed to both bad weather and price effects stemming from lower gasoline prices. This has come at the a time when we have also started to see some rotation away from goods-related consumption towards more service-based consumption – a component not well captured in retail sales data, but by far the largest contributor to spending activity. With the labor market continuing to strengthen, personal income rising at its fastest pace in over two-years and interest rates not far from 2013 levels, this is not the time to rule the American consumer out.

• Having said that, headwinds to our forecast still remain. Business investment, particularly in the oil and gas sector, will struggle over the first half of this year, as the impact of lower oil prices starts to filter through to the capital investment side. Moreover, weak global demand alongside a heighten dollar will help to depress export activity, while the latter is likely to support domestic imports. Overall, we expect net exports to be a small drag on GDP growth for 2015. For a more detailed look of our forecast, please see March Quarterly Economic Forecast.

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