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TD Economics

Data Release: Fourth quarter GDP growth unchanged, despite higher consumer spending growth

- The second estimate of U.S. real GDP growth for the fourth quarter of 2016 was unchanged at 1.9%(annualized), slightly disappointing expectations for an upward revision.
- Consumers did not disappoint, however. Spending growth was revised up to 3.0%, from 2.5% in the advance estimate. Spending on both goods are services was revised higher.
- One source of disappointment was a downward revision to non-residential business investment from 2.4% (adv.) to 1.3%. Spending on both equipment and intellectual property was revised lower. Meanwhile, the contraction in structures investment was slightly smaller than initially reported.
- Residential investment saw only a very modest downgrade to 9.6%, from 10.2% in the advance estimate.
- The drag from net-exports was unchanged, as a smaller contraction in exports offset slightly stronger growth in imports.
- The contribution from inventory investment was revised down to 0.9 %-points (from 1.0 %-points previously).

Key Implications

- The domestic economy is picking up speed. While GDP growth was unchanged, private domestic demand was revised up to 3.0% (from 2.8%), an acceleration from 2.4% in the third quarter. Looking ahead to the first quarter of 2017, we continue to expect a decent follow-through of around 2%. As a result, economic slack will continue to diminish and the Fed will continue to push interest rates higher. While we expect the first hike to come in June, a March hike is certainly not off the table if economic data surprises to the upside.
- Over the past six quarters, real GDP growth has been revised up 0.7 percentage points (at an annualized rate) between the BEA's advance and third estimate. The fourth quarter of 2016 has bucked that trend, so far, but here is still a good chance growth could be revised up in the third estimate.
- The downward revision to business investment is a tad disappointing, but there is ample scope for optimism over the year ahead. Business spending has been the missing piece in economic growth over the past several years. We continue to see a confluence of factors driving stronger spending growth in 2017 (please see our recent report for more details).
- The big question mark for the outlook is the future of fiscal policy. The new Congress and President's first priority is repealing and replacing the Affordable Care Act, likely dealing with tax reform and infrastructure spending later this spring and summer. Unless the President shows his hand in his speech tonight, we are likely going to be waiting a while longer to know the precise details of fiscal policy. At this point, it is safe to say it is more of a 2018 story, with limited impact this year. (For more details, please see our recent report on the ins and outs of tax reform.)

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