

UNITED STATES DATA RESPONSE



29th Jan. 2010

GDP (Q4 1st Estimate)

GDP boosted by inventories

- **The 5.7% annualised jump in fourth quarter GDP, up from 2.2% in the third, will undoubtedly convince a lot of people that the economic recovery is now in full swing and will go from strength to strength this year. Unfortunately, that isn't the case.**
- A sharp slowdown in the rate at which inventories were being run down contributed 3.4 percentage points to overall GDP growth. **Inventory rebuilding will probably continue to boost GDP growth for another two or three quarters. However, there is little evidence that rebuilding has kick-started a self-sustaining recovery.**
- Forget the headline GDP figure. More telling is the measure of final sales to domestic purchasers, which strips out inventories and net external trade. **On that measure, which provides a more accurate picture of the underlying strength of domestic demand, growth actually slowed to 1.7% in Q4, from 2.3% in Q3.** (See Chart.)
- There were one or two positive signs. Business investment expanded by 2.9%, driven by a 13.3% rebound in spending on equipment and software, which more than offset a 15.4% decline in spending on commercial real estate. Consumption increased by 2.0%, which is actually quite impressive given the drop back in spending on durable goods after the end of the Cash for Clunkers scheme. Finally, exports increased by 18.1%, easily outpacing a 10.5% rise in imports.
- **Overall, there is nothing in this report to change our view that GDP growth will surprise on the upside in the first half of the year before slowing sharply in the second, as the boost from inventories and the fiscal stimulus fade. We forecast GDP growth of 3.0% this year, but only 1.5% in 2011.**

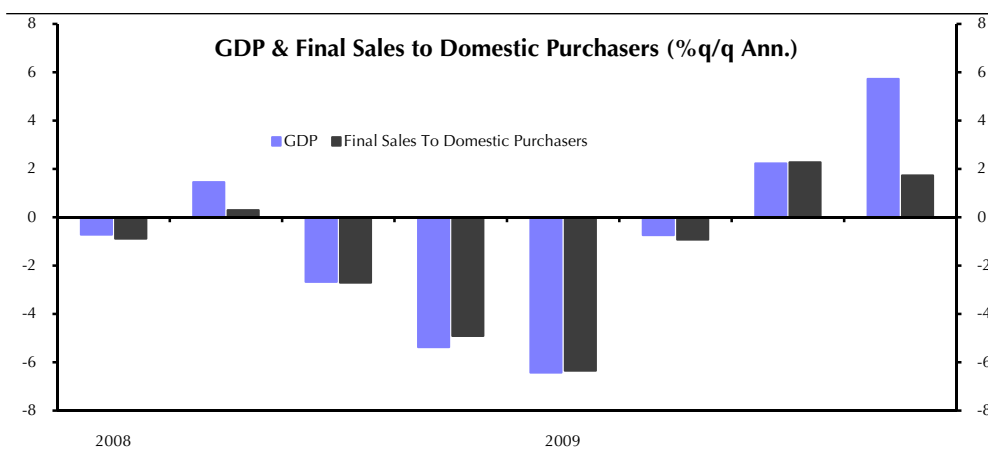
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GDP BY EXPENDITURE (%Q/Q ANN)

	Personal Consumption Expenditure	Business Investment	Residential Investment	Government Consumption	Change in Private Inventories (\$bn)	Exports	Imports	GDP q/q ann	GDP y/y
Q1	0.6	-39.2	-38.2	-2.6	-113.9	-29.9	-36.4	-6.4	-3.3
Q2	-0.9	-9.6	-23.3	6.7	-160.2	-4.0	-14.7	-0.7	-3.8
Q3	2.8	-5.9	18.9	2.6	-139.2	17.8	21.3	2.2	-2.6
Q4	2.0	2.9	5.7	-0.2	-33.5	18.1	10.5	5.7	0.1