# ECONOMIC UPDATE

REGIONS

January 30, 2014



## Q4 2013 Real GDP: Better Detail Underneath Slower Headline Growth Rate

- The BEA's first estimate of Q4 real GDP puts growth at an annualized rate of 3.2 percent, following growth of 4.1 percent in Q3.
- The GDP Price Index rose at an annualized rate of 1.3 percent in Q4, compared to an annualized increase of 2.0 percent in Q3.
- Consumer spending and net exports made the biggest contributions to Q4 real GDP growth.

According to the BEA's first estimate, real GDP grew at an annualized rate of 3.2 percent in Q4 2013 after annualized growth of 4.1 percent in Q3. Beneath the headline growth rate, however, the underlying details of the Q4 report are more encouraging with consumer spending and net exports serving as the main drivers of growth, compared to Q3 when a faster rate of inventory accumulation added 1.7 percent to top-line growth. There were, however, a few surprises in the Q4 data, most notably sharp contractions in federal government spending and residential fixed investment. We will note the BEA's first estimate of GDP in any given quarter is based on incomplete source data and, as such, subject to large revision in the second and third estimates. Recall the first estimate of Q3 growth was 2.8 percent with the third and (at least for now) final estimate at 4.1 percent. Based on the BEA's first estimate, real GDP grew by 1.9 percent for 2013 as a whole.

Real consumer spending advanced at an annualized rate of 3.3 percent in Q4 compared to growth of 2.0 percent in Q3. Consumer spending added 2.3 percent to top-line growth in Q4. Growth in spending on consumer durable goods slowed to an annualized rate of 5.9 percent in Q4 from Q3's rate of 7.9 percent, reflecting in part a slower pace of motor vehicle sales in Q4. Growth in spending on nondurable consumer goods and on household services accelerated in Q4. Real spending on household services, which reflects roughly two-thirds of all consumer spending, grew at an annualized rate of 2.5 percent in Q4, the fastest pace of growth since Q3 2011. Since the end of the 2007-09 recession it has been a notably slow pace of growth in spending on household services that has been the biggest drag on overall consumer spending.

The real trade deficit narrowed sharply in Q4 to an annualized rate of $370.1 the smallest trade gap since Q2 2009. Exports of U.S. goods grew at an annualized rate of 15.1 percent in Q4 while exports of U.S. services rose at an annualized rate of 3.4 percent. At the same time, growth of imports into the U.S. slowed significantly, with growth of imports of goods slowing to 0.9 percent and growth of imports of services slowing to 0.8 percent (annualized). On net, the smaller trade gap added 1.3 percent to top-line growth.

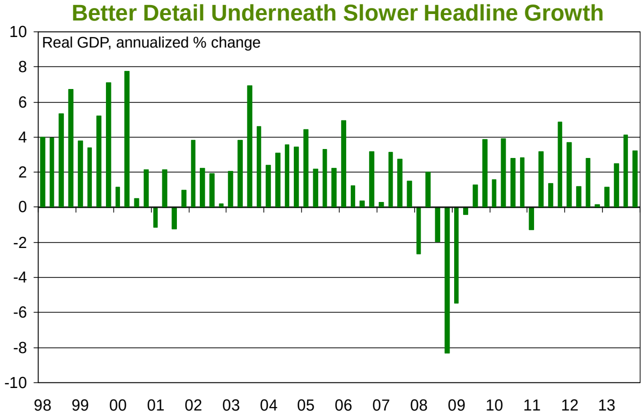
Real business fixed investment grew at an annualized rate of 3.8 percent in Q4, down from growth of 4.8 percent in Q3. Growth in spending on machinery and equipment, however, picked up in Q4 to an annualized rate of 6.9 percent. New investment in commercial and industrial structures slipped in Q4, declining at an annualized rate of 1.2 percent but this follows two consecutive quarters of double-digit growth in such spending. Contrary to fears the rapid pace of inventory accumulation in Q3 would lead to inventories acting as a material drag on Q4 growth, inventories grew more rapidly in Q4 with the largest inventory build since Q1 1998. Rather than looking at inventory accumulation in isolation, a mistake many analysts – yes, us included – initially made upon the release of the Q3 data, inventory accumulation must be looked at in the context of the rate of growth in sales. Inventory-to-sales ratios did not budge even with the rapid rate of inventory accumulation seen in Q3, which helps explain why there was room for further stockpiling in Q4. This is not to say inventory growth can continue at the same rate indefinitely but with the possible exception of motor vehicle inventories, stockpiles are not out of alignment with sales.

Federal government spending contracted at an annualized rate of 12.6 percent in Q4, with double-digit declines in defense and nondefense spending. This is likely a reflection of the partial shutdown of the federal government in October, though it's hard to see the short-lived break having such a large impact; we suspect this will be one source of revision in the BEA's second estimate to be released next month.

We do expect a significantly smaller degree of fiscal drag in 2014 which, along with further strengthening in the private sector, should be sufficient to sustain growth ahead of 3.0 percent for the year as a whole.

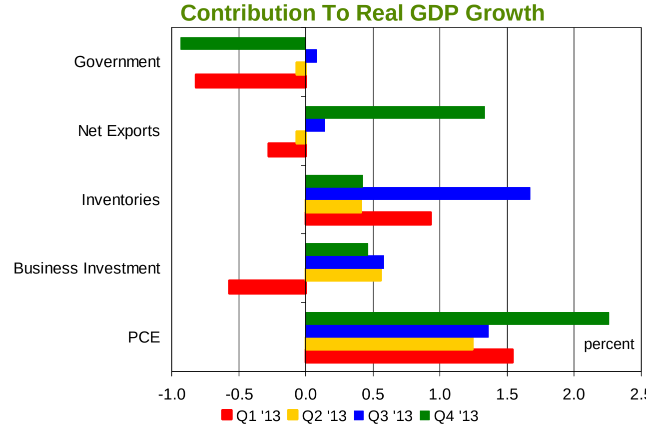
REGIONS

Better Detail Underneath Slower Headline Growth




REGIONS

Contribution To Real GDP Growth




**Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203**
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com