Indicators

United States

GDP

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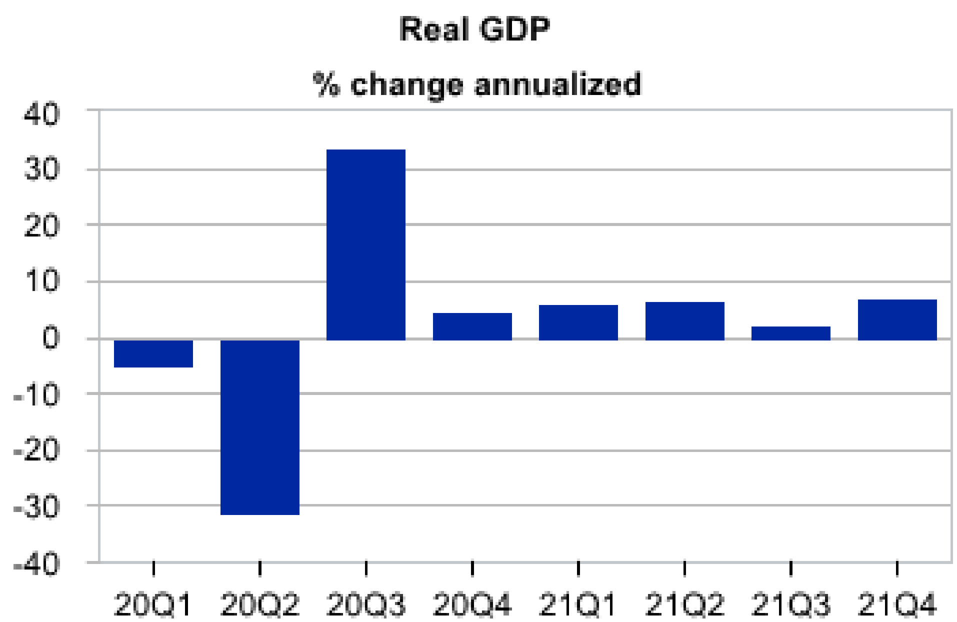
Scott Hoyt

Actual	6.9%, q/q, SAAR
Previous *	7.0%, q/q, SAAR
Consensus	7.1%, q/q, SAAR
Coverage	2021Q4
Next Release	Apr 28, 2022
Updated	Mar 30, 2022

Definition   Source



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First Take

U.S. GDP growth accelerated to 6.9% in the fourth quarter, according to the BEA's third estimate, up from 2.3% in the third quarter. The strength was less than it appears, as inventory accumulation accounted for more than 75% of the gain. Consumer spending growth accelerated modestly but remained well below its pace in the first half of the year. Nonresidential investment was also a support. Growth was revised down from 7% reported last month. Government spending was a drag while trade and residential fixed investment made small and opposing contributions. Real disposable income fell 5.6% as stimulus faded further. The saving rate dropped to 7.7% from 9.5%. Profits increased 0.7% (not annualized) after rising 3.4% previously. Gross domestic income rose 5.1% after advancing 6.4%.

Gross Domestic Product

	21Q4	21Q3	21Q2	21Q1	20Q4	20Q3	20Q2	20Q1
Annualized % change								
Real	6.89	2.30	6.73	6.28	4.54	33.78	- 31.24	- 5.11
Nominal	14.53	8.37	13.38	10.86	6.57	38.73	- 32.41	- 3.87
Implicit price deflator	7.15	5.93	6.23	4.31	1.95	3.70	- 1.71	1.31
Contributions to real GDP, annualized % change, ppt								
Consumption	1.76	1.35	7.92	7.44	2.26	25.51	- 24.10	- 4.79
Fixed investment	0.50	- 0.16	0.61	2.25	2.92	4.88	- 5.63	- 0.41
Fixed residential investment	0.10	- 0.38	- 0.60	0.60	1.34	2.16	- 1.36	0.73
Fixed nonresidential investment	0.40	0.22	1.21	1.65	1.57	2.72	- 4.28	- 1.14
Inventories	5.32	2.20	- 1.26	- 2.62	1.10	6.84	- 4.01	- 0.51
Net exports	- 0.23	- 1.26	- 0.18	- 1.56	- 1.65	- 3.25	1.53	- 0.05
Government	- 0.46	0.17	- 0.36	0.77	- 0.09	- 0.19	0.97	0.63

Gross Domestic Income

	21Q4	21Q3	21Q2	21Q1	20Q4	20Q3	20Q2	20Q1
Annualized % change								
Real	5.05	6.37	4.28	6.31	19.63	24.37	- 32.70	- 0.82
Nominal	12.56	12.68	10.78	10.89	21.96	28.97	- 33.85	0.48

Corporate Profits

	21Q4	21Q3	21Q2	21Q1	20Q4	20Q3	20Q2	20Q1
% change								
Total with IVA and CCA	0.70	3.44	10.50	5.10	- 0.33	25.37	- 10.46	- 9.80
Profits before tax	- 0.18	1.50	13.19	9.32	1.29	34.61	- 8.54	- 12.75
Profits after tax	- 0.78	1.16	13.63	9.39	0.76	36.15	- 9.50	- 11.21

The Numbers

- The rebound in economic activity temporarily perked up in the fourth quarter, between waves of COVID-19 and before Russia's invasion of Ukraine. As measured by real GDP, output rose 6.9% after gaining 2.3% at an annualized rate in the third quarter, according to the third report from the BEA.
- Inventories were a major source of growth, adding 5.3 percentage points to growth as the decumulation of inventories turned to an accumulation. Inventories made large contributions to growth all of last year, reducing growth in the first half and supporting it in the second.
- Consumer spending, which dominated growth in the first half, also made an important contribution in the fourth quarter, adding 1.8 percentage points to growth. Services accounted for the bulk of the contribution with durables and nondurable goods each a slight support.
- Trade was a minor drag on growth, with the support from growing exports slightly more than offset by the drag from growing imports. Government was a drag on growth in the quarter, with both federal and state and local spending falling modestly. Fixed investment was a modest support to modest, broad-based growth.
- Revisions to fourth-quarter GDP were slightly negative on net as the preliminary report put growth at 6.9% and the second report showed 7% growth. Upward revisions were made to inventory and residential fixed investment. These were more than offset by downward revisions to consumer spending on healthcare, transportation and food consumption, and an upward revision to imports.

- Real GDP rose 5.5% compared with the comparable quarter in 2020. In the third quarter, it was up 4.9%. Year-over-year growth was led by intellectual property investment. Among the largest drags were imports, structures investment, and federal defense spending.
- The mix of growth was weaker than the top-line growth rate would suggest. Final sales of domestic products, which exclude the impact on GDP from inventories, grew a modest 1.5%, though this was an improvement from the 0.1% gain in the third quarter.
- The personal consumption expenditures price index showed an increase of 6.4% in the fourth quarter following inflation of 5.3% in the third quarter. Excluding food and energy, prices rose 5% compared with a gain of 4.6% in the prior quarter. Supply constraints are among the forces pushing up prices. Inflation has since accelerated as the invasion of Ukraine has restricted the supply of many goods, especially energy.
- Corporate profits rose 0.7% (not annualized) in the fourth quarter after rising 3.4% in the third quarter. Profit growth was slowed by a decline in profits at domestic financial industries.
- Gross domestic income, an alternative measure of the size of the economy, rose a strong 5.1% in the quarter after rising 6.4% the prior quarter. The average of gross domestic product and gross domestic income rose 6% in the fourth quarter.

Behind the Numbers

U.S. economic growth has been volatile in recent quarters. GDP rose almost 7% in the second quarter of 2021, less than 2.5% in the third quarter, and nearly 7% in the final three months of last year, and it appears on track to grow by less than 2% in the quarter that is just coming to an end. Much of the volatility has come from waves of the COVID-19 pandemic, although other factors, including swings in inventory accumulation, have played a role. The Russian invasion of Ukraine has been a significant blow to the global economy in the first quarter. Sudden higher oil, natural gas, agricultural and metal prices are conflating with already painfully high inflation caused by pandemic disruptions to supply chains and labor markets.

Beyond the noise, the economy had a good 2021. Growth of 5.5% topped expectations at the start of the year. Growth would have been even stronger in 2021 if not for the Delta wave of the pandemic, which hit during the summer and undermined third-quarter growth. This also highlights a risk to the outlook for 2022 with Omicron hurting first-quarter growth and new waves possible later in the year.

Though starting out bumpy, this year may well be an even better year for the economy in many ways. Growth will slow; both real GDP and monthly job gains will lag last year's lofty rates. Nonetheless, the economy should be near full employment and inflation should be slowing by the end of the year. While Omicron will be a temporary drag, much of its impact on growth in the first quarter will be shifted to the second quarter. For all of 2022, we expect real GDP to rise 3.5%, well above the economy's potential. A big support to GDP growth this year will be the replenishment of inventories.

The economy rebounded in the fourth quarter as the Delta wave of the pandemic waned and Omicron had yet to hit hard. Drags from fading economic stimulus and Hurricane Ida, which had hurt third-quarter growth, were less apparent or absent in the fourth quarter. Real GDP growth in the fourth quarter still lagged growth in the first half of the year, and even more so when the large support from inventory accumulation is discounted.

There are still sizable risks to the outlook. Events in Europe now trump potential virus waves as the biggest threat. Both have the potential to hurt supply chains and push inflation disturbingly high. Other threats include equity and housing markets that appear overvalued, and the former, in particular, are at risk of a further correction. High gasoline and other consumer prices are absorbing some consumers' cash and hurting confidence. Debt issues as student loan forbearance ends could prove worse than expected. Brexit and trade wars remain issues. The adjustment to higher interest rates could be less graceful than expected.

There are upside risks as well, starting with the huge amount of cash consumers have saved since the onset of the pandemic and the potential productivity gains resulting from infrastructure and investment spending. Finally, workers could return to fill job openings more quickly than expected, lifting household income, spending and economic growth.