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Comment on Q4 GDP

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Q4 GDP: Consumer spending drove moderate growth in late 2016

The U.S. Bureau of Economic Analysis today reported 1.9 percent annualized growth in real Gross Domestic Product for the fourth quarter of 2016.

During the second half of 2016, growth strengthened compared to a weak first half of the year, buoyed by strong domestic demand which has been fueled by a vibrant labor market. Overall, the economy enters 2017 on steady footing, but will need stronger trade and investment conditions to prevail to move substantially above 2.0 percent trend growth. Even with a slight slowdown in job creation, wage growth is likely to continue as the amount of spare capacity firms have to draw from remains small. A pickup in residential investment this quarter also illustrates the strength of the household sector, though higher mortgage rates create downside risks going forward. Non-residential investment showed some renewed vigor during the second half of the year, though much of the strength remains contained to intellectual property products. Higher levels of business confidence signal that 2017 could see the emergence of investment from extended low growth doldrums. Accelerated fourth quarter inventory build based on higher sales expectations illustrates one form of direct action firms are taking in response to increased business confidence. History suggests, though, that lower corporate tax rates, or even a repatriation holiday, may not produce the investment boomlet market participants are yearning for. Trade generated a large drag on fourth quarter growth due to a stronger dollar and a correction from temporary third quarter factors which boosted exports.

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