

The Daily Dish

Closing the (Economic) Books on 2023

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Yesterday the Bureau of Economic Analysis released its first estimate of gross domestic product (GDP) in the 4th quarter of 2023. The headline was a big surprise: growth in GDP at an annualized rate of 3.3 percent, well above the expectation of 2 percent or so. What happened?

Consumer spending continued to grow strongly, rising at an annual rate of 2.8 percent – only modestly down from the 3.1 percent recorded in the 3rd quarter. But that was largely to be expected; the monthly reports on consumer spending pointed toward continued strength. Similarly, exports continued apace – 6.3 percent versus 5.4 percent in the 3rd quarter – while import growth dropped sharply from 4.2 percent to 1.9 percent.

In contrast, government spending – which had contributed a full percentage point to the 4.9 percent GDP growth in the 3rd quarter – dropped from 5.8 percent to 3.3 percent and contributed only 0.56 percentage points to the 3.3 percent top-line growth.

But the real story in the 4th quarter data was non-residential fixed investment, which rose from 1.4 percent annualized growth to 1.9 percent. This may not sound spectacular, but all components of investment – structures, equipment, and intellectual property products – displayed positive growth.

Eakinomics has been focused on the sluggish business investment data for a while because downturns in non-residential fixed investment have led every business cycle downturn in the postwar period except the pandemic recession. Getting back into positive territory across the board eliminates some drag on the top line, but even more important, suggests there may be enough momentum to avoid a downturn in the first half of 2024.