



Q4 Real GDP: +6.9%, Inventories Drive Headline Growth

Rohan Kumar*

Real GDP tallied a 6.9% annualized quarterly increase in Q4 (DE 7.0%, Consensus 5.5%) following a 2.3% increase in Q3. In non-annualized terms (QoQ), this release marked a 1.7% increase after a 0.6% rise.

Data – Private Inventories Experience Strong Growth

- **Personal Consumption** grew 3.3% after a 2.0% rise. Consumption rose 0.5% for Goods, with a 1.6% gain for Durables and a 0.1% fall for Nondurables. Consumption rose 4.7% for Services.
- **Gross Private Investment** increased 32.0% following a 12.4% rise. Total Fixed Investment went up 1.3%, with a 0.8% fall for Residential and a 2.0% gain for Nonresidential.
- Investment grew 10.6% for Intellectual Property and 0.8% for Equipment but fell 11.4% for Structures.
- **Private Inventories increased \$173.5B following a \$66.8B slide.**
- **Government Consumption** decreased 2.9% after a 0.9% rise. The Federal component fell 4.0% while State and Local went down 2.2%.
- **Exports** rose 24.5% while **Imports** grew 17.7%.
- **The overall GDP Price Index** went up 6.9% following a 6.0% rise.

Perspectives – Inventory Buildup Not Unwanted

Real GDP growth was very close to DE’s forecast but was considerably higher than the Consensus projection.

Real GDP entered the Expansion stage under DE nomenclature in Q2 by exceeding the prior business cycle’s peak. That **Expansion continued in Q4.**

Real Q4 Consumption growth was weaker than DE expected, but Private Inventories grew substantially and supported headline Real GDP growth.

Holiday shopping was likely less than many businesses anticipated, due to Omicron outbreaks, thus resulting in a major increase in Private Inventories.

While the extent of the buildup was partly unplanned, **it is not unwanted.** This growth in Inventories came after three quarters of contraction that were partly caused by supply chain difficulties. **Firms were able to catch up somewhat in Q4 and will now be better suited to handle strong demand once outbreaks settle.**

Compared to Q419, Real GDP was up 3.1% after being up 1.4% last quarter.

Consider a hypothetical track, in which Real GDP grew 0.5% QoQ each quarter after Q419 – the Q421 actual figure was down 0.9% from such a growth path.

DE expects softer Real GDP growth for Q1.