

# US GDP set to bounce back after government shutdown depresses 4Q activity

The government shutdown was more of a drag than predicted while the trade story failed to provide the anticipated boost. Nonetheless, the underlying consumer and investment data remain firm. However, there is a lack of breadth within those two components, with technology investment and high-income consumers driving activity forward



Technology spending was one of the bright spots in US fourth-quarter GDP

**1.4%** 4Q GDP growth

Lower than expected

## Underlying growth remains firm despite government shock

We've had quite a surprising set of US numbers today with fourth-quarter 2025 GDP recording

growth half of what was predicted (1.4% QoQ annualised versus the 2.8% consensus). Meanwhile, the Fed's favoured inflation measure, the December core PCE deflator, was hotter at +0.4%MoM/2.9%YoY (consensus 0.3%/2.8%).

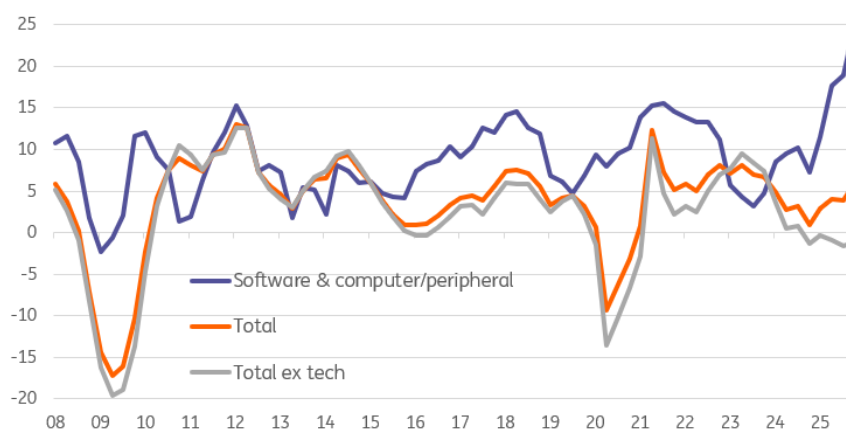
It was only at Davos that the members of the Administration were touting the prospect of a 5%+ 4Q GDP print, but this always looked optimistic as it was based off the Atlanta Fed's GDPNow metric that was predicated on a remarkable October trade report being replicated in November and December. That didn't happen with imports bouncing back in the final two months of the year. In the end, net trade only contributed 0.1pp to headline growth. The six-week-long government shutdown was a major drag with a 16.6% annualised drop in Federal government spending subtracting 1.15pp from the headline growth rate. Outside of that, consumption was a respectable 2.4% annualised growth with investment rising 3.8% even with residential investment falling for the fourth straight quarter.

### K-shaped: The lack of breadth remains a concern

The reopened government is expected to boost GDP in first-quarter 2026, but the trade story seems to have normalised now, so it will tend to act as a mild drag. The underlying story appears to be holding up though, with the US set to record a sixth consecutive year of 2%+ GDP growth in 2026. However, the lack of breadth remains a concern.

The chart below is business capital expenditure and shows technology-related capex (software & computing) rising nearly 25% YoY. **All other business investment in the US has now fallen for FIVE consecutive quarters.** It may be that companies are so focused on staying ahead of the curve on technology that they are allowing technology capex to cannibalise all other business investment and hiring. Nonetheless, this suggests a certain degree of concentration risk to the growth story and keeps the whole K-shaped economy narrative in place.

### Non-residential private fixed investment (YoY%)



Source: Macrobond, ING

The same is true of the US consumer sector. The top 20% of households by income continue to spend strongly, boosted by high incomes and soaring wealth, while the bottom 60% are struggling as concerns about job security and the potential for tariff-induced price hikes sap sentiment. Some tax changes may help lower-income households at the margin, with higher tax refunds also expected this year. In the meantime, real household disposable incomes are flatlining with

monthly growth of 0, 0.1, -0.1, 0.1 and 0.1% over the past five months, which has led to the savings ratio dropping to 3.6%. Aside from the pandemic, this is the lowest since the 2008 Great Financial Crisis.

## Inflation should be slower in January

We aren't too worried about today's slightly elevated inflation numbers. January core CPI was fairly benign and would have been even lower if it wasn't for a 6.5% month-on-month jump in airfares. The January core PCE deflator will use the PPI measure of airfares and that should be lower, potentially allowing a 0.2% MoM outcome. But even so, there is little prospect of a Federal Reserve interest rate cut before Chair Powell is replaced as head of the Fed in May. We look for June and September cuts once there is a little more comfort in the inflation story.

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