US GDP: Weakness behind the facade

While GDP beat expectations, growing 6.9% in 4Q21, inventory rebuilding was responsible for the bulk, contributing 4.9 percentage points. The Omicron variant hit activity hard in December and this has carried through into January, setting us up for a soft 1Q22 GDP figure

US consumers at a Walmart store in California

6.9% Annualised GDP growth in 4Q 2021

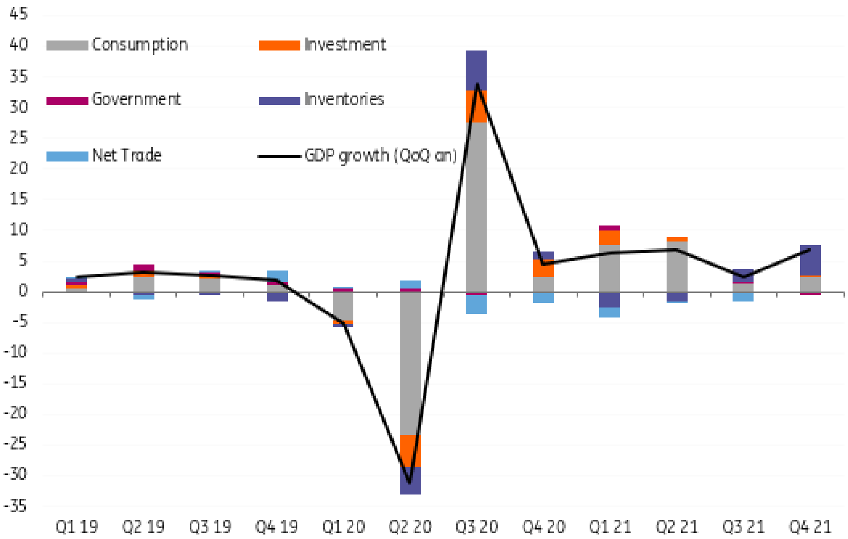
Better than expected, but the devil is in the detail

GDP growth expectation for the fourth quarter of 2021 had been scaled back over the past couple of weeks as it became increasingly clear that the Omicron wave of Covid cases had hit the US economy hard. December retail sales collapsed, restaurant dining and air passenger numbers had fallen around 30% versus baseline and people movement slowed sharply as consumer caution took hold ahead of the festive season.

In the end, the outcome is much better than expected at the headline level with the economy recording annualised growth of 6.9% versus the 5.5% consensus, but the devil is very much in the detail.

Inventory rebuilding contributed 4.9 percentage points to the total, led primarily by the auto sector. Given ongoing supply disruption, we can't count on this continuing to support growth in coming quarters. Outside of inventories this was a fairly weak report. Trade did fine with exports surging 24.5% and import jumping 17.7%, but overall the net trade contribution to growth was 0% after having subtracted 1.3 percentage points from headline growth in 3Q.

Contributions to GDP growth (%)



Source: Macrobond, ING

Consumer spending grew only 3.3%. After growth of 0.7% Month-on-Month in October and 0% in November, this implies real (inflation-adjusted) consumer spending plunged 1.1% MoM in December, which reflects the Covid consumer caution. Fixed Investment did barely anything, growing 1.3% annualised as residential investment fell 0.8%, while non-residential rose 2%. Rounding out the numbers, government consumption fell 2.9%.

Brace for a negative 1Q GDP report

As we look towards 1Q GDP we see a real chance that the US records negative GDP growth. With January consumer spending unlikely to show meaningful improvement on December, we are pencilling in flat consumer spending growth for the quarter even though spending should be much stronger in February and March. Then there is the risk that at least some of the 4Q inventory rebuild unwinds so this puts a lot of pressure on private investment, net trade and government spending to get us into positive GDP growth territory.

The Fed is well aware of these risks and Chair Jerome Powell's press conference suggests they are prepared to look through near-term economic weakness, especially with inflation pressures showing no signs of abating. In any case, given Covid case numbers are falling in several states, we are hopeful that consumers will re-engage with the economy in February and March with strong household fundamentals of a strong jobs market and accrued income and wealth gains fueling spending. This should set us up for a very strong return to vigorous growth in the second quarter.

Author

James Knightley
Chief International Economist
james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

 ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.