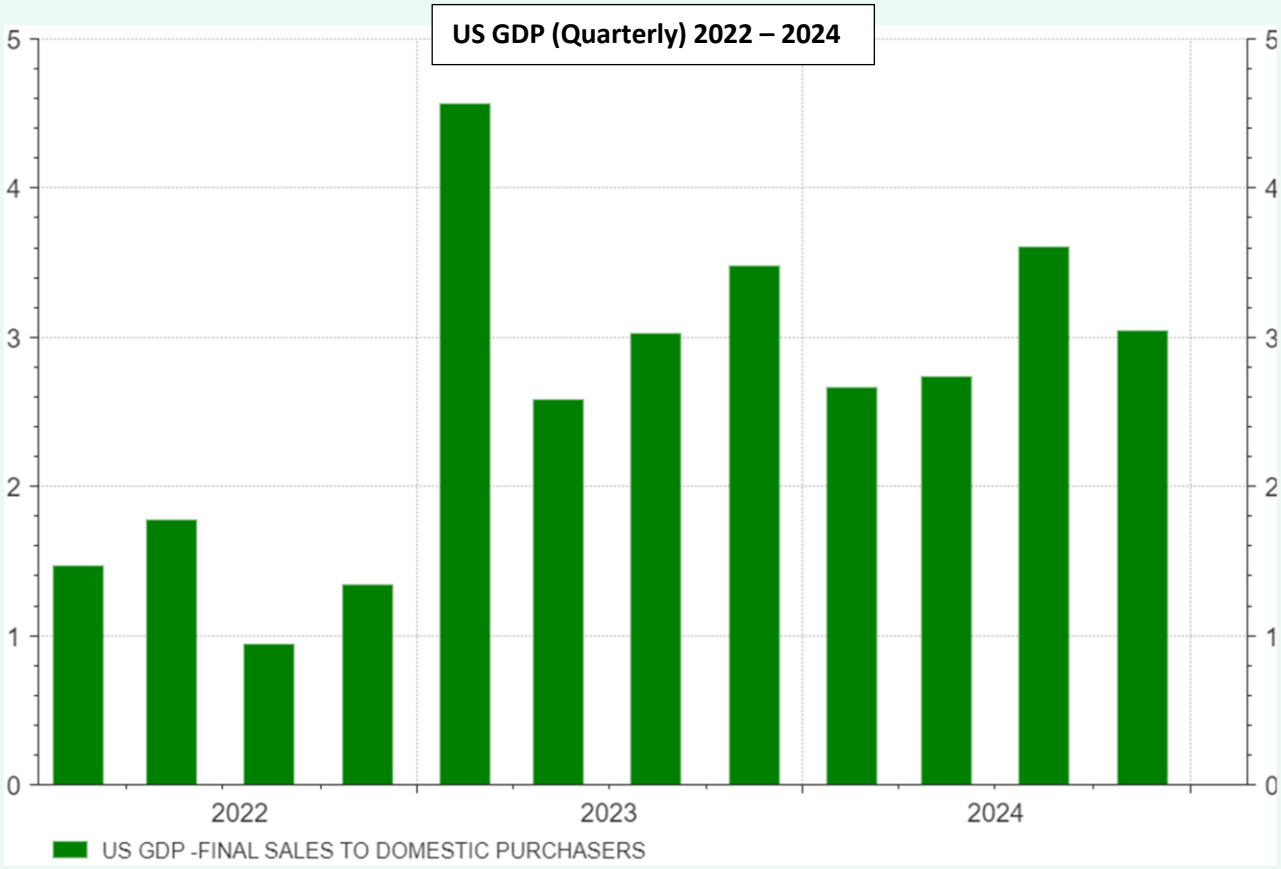
US GDP – Better Than It Looked

4 February 2025



Source: LSEG Datastream

Timeframe: Quarterly 2022 to 2024

Data - Removing impact of inventories

Where to now with US interest rates?

Key points:

- Last week's US 4Q24 GDP number came in lower than expected, at 2.3%. The consensus was for 2.6%, and the highly respected, data-driven Atlanta Fed GDPNOW tracker had suggested 3.2%.
- So, is the US economy finally slowing down, and will this allow the Fed to cut interest rates? Maybe not.
- The more you dig into the numbers, the stronger the economy looks. Consumers were certainly spending, with their contribution to GDP up 4.2%. But the key reason why the GDP number came in lower than expected was a further sizeable drop in inventories.
- Businesses, possibly in response to the summer equity market turmoil and the prevailing weak business confidence, cut their inventories overall, and that took an estimated 0.9% off the GDP number.
- But in the last few months, we have seen US business confidence soar in response to the Trump election victory, with the increase in NFIB US business confidence survey the last 2 months being the largest ever. That should drive inventories higher in 1Q25 and push back hopes of further rate cuts in the short term.
- Looking at a measure of GDP ex-inventory changes offers us a better guide to the underlying performance of the US economy. On this basis, the economic performance has been pretty consistent during 2024, whereas bond market expectations on GDP and/or interest rates, has been anything but.

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Sources: Collidr, Bloomberg. Indices: Barclays, FTSE, Bloomberg, STOXX, Japan Exchange Group, MSCI, S&P, New York Mercantile Exchange, Chicago Mercantile Exchange, Bureau of Labour Statistics, US and Office for National Statistics, UK.