

Fourth Quarter GDP Handily Beats Forecasts

Fourth quarter GDP proved much better than expected with the U.S. economy growing at a surprisingly resilient +3.3% pace, well above the +2.0% median forecast. A year ago, a majority of U.S. economists were predicting a mild recession ahead for 2023. The reality was that the U.S. economy grew +2.5% in 2023, up from +2.2% in 2022 defying the Fed's aggressive actions to stem consumer demand.

The majority of GDP growth last quarter was attributed to consumer spending as personal consumption climbed +2.8%, adding 1.9 percentage points to the overall gain. However, Q4 growth was widespread with business fixed investment adding 0.3 percentage points and housing making a (fractional) positive contribution for the second straight quarter. Net exports added 0.4 to the total as exports gained while imports slipped. Government spending added roughly 0.6, mostly on the state and local side.

Perhaps the biggest surprise in the report was an unexpected rise in business inventories. In the previous period, inventories had surged as businesses stocked up on goods for the holiday season. Although this accumulation boosted third quarter GDP, a reversal was expected to subtract from fourth quarter growth. *This didn't happen* as inventory levels actually ended the quarter higher.

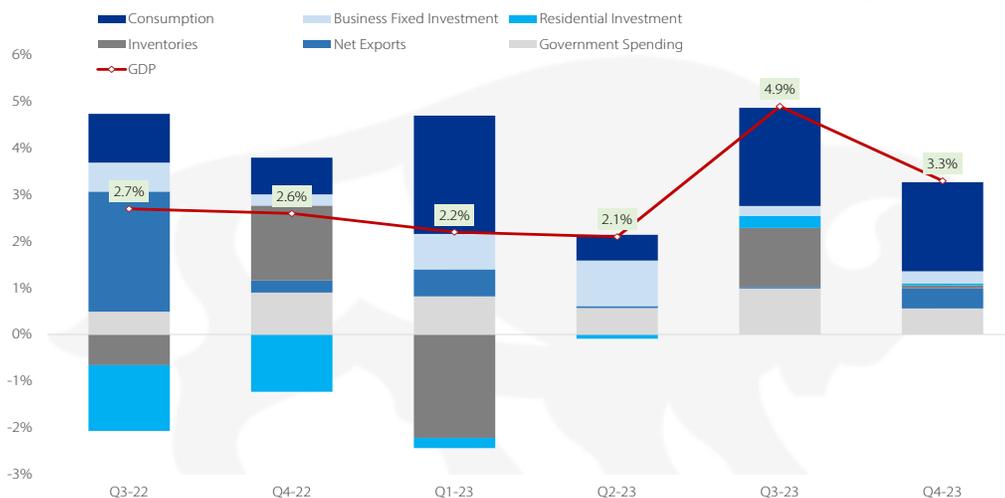
On the inflation side, the GDP price index rose by just +1.5% in the fourth quarter, well below the +2.2% forecast and a notable decline from +3.3% in Q3. The core PCE price index held steady at +2.0%, matching the median forecast. This morning's quarterly release is inherently stale, December data is more important. December PCE numbers will be released tomorrow.

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Gross Domestic Product (Quarter-over-Quarter Annualized Percent Change)



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Source: Bureau of Economic Analysis

The better-than-expected economic picture has added fuel to the stock market rally with the Nasdaq, S&P500 and DOW at fresh record highs. Bonds have also rallied in early trading, focusing less on the persistent growth and more on declining inflationary pressure.

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Market Indications as of 9:25 A.M. Central Time

DOW	Up 198 to 38,005 (NEW HIGH)
NASDAQ	Up 92 to 15,574 (NEW HIGH)
S&P 500	Up 24 to 4,893 (NEW HIGH)
1-Yr T-bill	current yield 4.76%; opening yield 4.81%
2-Yr T-note	current yield 4.32%; opening yield 4.38%
3-Yr T-note	current yield 4.13%; opening yield 4.19%
5-Yr T-note	current yield 4.03%; opening yield 4.08%
10-Yr T-note	current yield 4.13%; opening yield 4.18%
30-Yr T-bond	current yield 4.36%; opening yield 4.41%

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