Q4 GDP: Weak Finish to a Good Year

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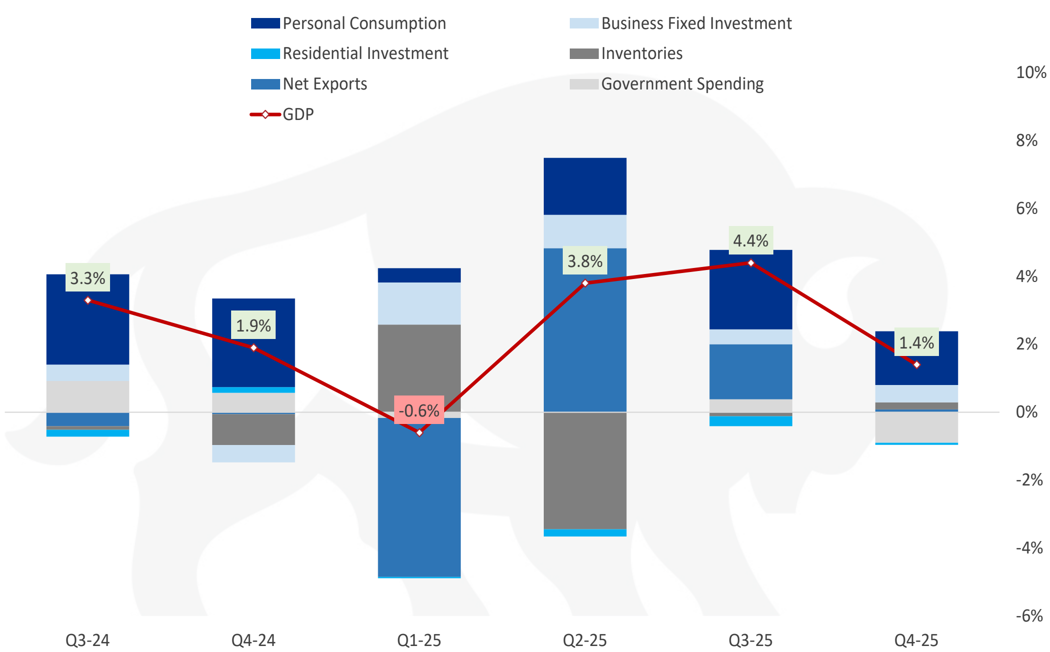
Late is better than never, but today's fourth quarter GDP release was underwhelming. After a year of broad-based strength, most analysts expected Q4 to continue that trajectory. Instead, real GDP grew at an annualized 1.4%, well below the 2.8% Bloomberg survey median estimate and far from the 4–5% pace expected as recently as January. The primary culprit was the record long federal government shutdown.

Federal spending fell 5.1%, pulling overall growth down by 90 basis points, and accounting for almost the entire gap between expectations and the final print. Outside of government, however, the economy showed more resilience. Personal consumption increased 2.4%, matching expectations, and business investment rose 3.7%, suggesting private sector demand held firmer than the headline GDP number implies.

Inflation, however, moved in the wrong direction. The GDP deflator, a measure that shows how much GDP changed due to prices, rose 3.6%. Quarterly Personal Consumption Expenditures (PCE) inflation came in at 2.9%. December's PCE figures were particularly hot: core PCE rose 0.4%, the largest monthly gain in almost a year, pushing the YoY rate to 3.0%. Inflation measures such as CPI and PCE have moved in different directions recently as the underlying methodologies vary.

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



Source: Bureau of Economic Analysis

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The fourth quarter delivered a combination that neither markets nor policymakers want to see, weaker than expected growth and firmer than expected inflation. Most of the weakness can be traced directly to the shutdown. The federal government was shuttered for nearly half of the quarter, slashing government output while still paying furloughed workers, which inflated measured prices even as real activity stalled. Economists expect most of that lost government related growth to rebound in Q1 once operations normalize.

Despite the disappointing quarter, the broader year told a better story. The economy grew 2.2% for all of 2025, supported by business investment in AI, Fed rate cuts, strong markets, and steady spending among higher income households. These forces helped offset late year distortions and kept private sector momentum in place.

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Financial markets took the report largely in stride. As of today, both the FOMC and market pricing indicate no rate cuts in the first half of the year, with expectations centered around two cuts, with the first starting in June or July, contingent on inflation resuming a clearer downward trajectory.

IN OTHER NEWS:

- Today, the Supreme Court ruled that President Trump overstepped his authority by using emergency powers to impose sweeping global tariffs without clear authorization from Congress. *We'll be following up with commentary on this decision later today.*

Market Indications as of 10:39 A.M. Central Time

DOW	Up 98 to 49,493 (HIGH: 50,188)
NASDAQ	Up 190 to 22,873 (HIGH: 23,958)
S&P 500	Up 27 to 6,888 (HIGH: 6,979)
1-Yr T-bill	current yield 3.51%; opening yield 3.47%
2-Yr T-note	current yield 3.48%; opening yield 3.46%
3-Yr T-note	current yield 3.50%; opening yield 3.49%
5-Yr T-note	current yield 3.66%; opening yield 3.64%
10-Yr T-note	current yield 4.09%; opening yield 4.07%
30-Yr T-bond	current yield 4.73%; opening yield 4.70%

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