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TRENDMACRO LIVE!

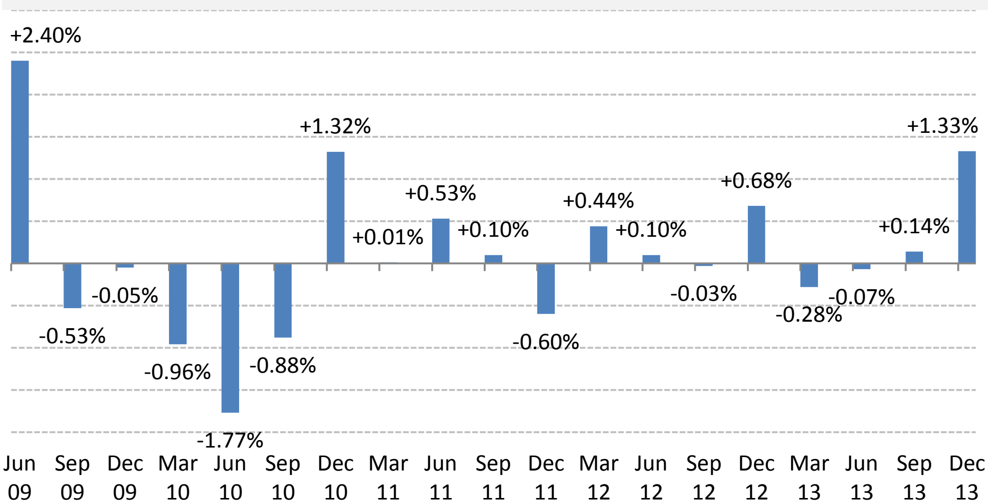
On Q4 GDP

Thursday, January 30, 2014
Donald Luskin

Beating the "new normal" now for three quarters running. Beating the "old normal," too.

Q4 gross domestic product reported this morning came in right at expectations, showing real output growth of 3.2% on an annual basis.

- This wraps up calendar 2013 with real growth of 1.9%, just below the supposed "new normal" of 2%.
- But this is the third quarter in a row of growth better than that. On an annual basis, growth over the last three quarters has been 3.2% -- the same annual rate as Q4 itself, and well above the "new normal."
- In fact, that's even above the "old normal" of about 3%.
- We suppose this is what the FOMC meant yesterday when it said, perhaps with more casualness than markets would have wished at that moment, that "growth in economic activity picked up in recent quarters" (see "On the January FOMC" January 29, 2014).
- *The big swing factor in Q4 was net exports, explaining 1.48% of the 3.2% growth in the quarter (see "Data Insights: GDP" January 30, 2013). This is the biggest contribution since Q2 2009, at the very bottom of the Great Recession* (please see the chart below).



Source: BEA, TrendMacro calculations

Update to strategic view

US MACRO: Three quarters in a row now of real growth better than the assumed "new normal" of 2%. The last three quarters taken together, at 3.2% -- the same growth rate as Q4 itself -- even slightly beat the "old normal" of 3%. The big swing factor was the best net exports contribution to growth since the trough of the Great Recession. Then as now it was because of falling oil prices and import volumes. But this time, those weren't driven by global financial collapse, but rather by technology leaps in domestic production.

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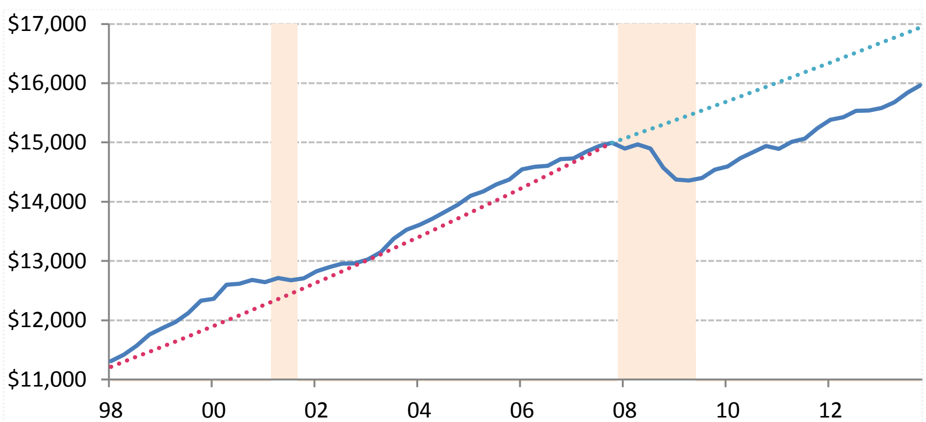
- *Back then, it was due to collapsing prices and volume of oil imports because global financial contagion had so reduced world economic activity.*
- *Now, again, it is due to falling oil prices and import volumes, but this time for the right reasons: the quantum improvements in the technologies being brought to bear on domestic production.*
- This, and the cessation of global financial contagion, forms the basis for our more optimistic view on growth (see "A Major Upgrade to our Strategic Outlook" September 12, 2013).
- If this morning's growth numbers are a hint of that, then that's all to the good. But we continue to maintain that the growth acceleration we expect will be far greater than this, and that we are still really not seeing it in the data (see "On the December Jobs Report" January 10, 2014).
- There is much more to achieve before we can really start to close the historic output gap produced in the Great Recession, and left basically unchanged so far in this Not So Great Expansion (please see the chart below).

Real GDP **1973-2007 trend 3%** **"New normal" post '07 trend 2%** **Recession** SAAR, USD billions



Source: BEA, NBER, TrendMacro calculations

Bottom line

Three quarters in a row now of real growth better than the assumed "new normal" of 2%. The last three quarters taken together, at 3.2% -- the same growth rate as Q4 itself -- even slightly beat the "old normal" of 3%. The big swing factor was the best net exports contribution to growth since the trough of the Great Recession. Then as now it was because of falling oil prices and import volumes. But this time, those weren't driven by global financial collapse, but rather by technology leaps in domestic production.

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