



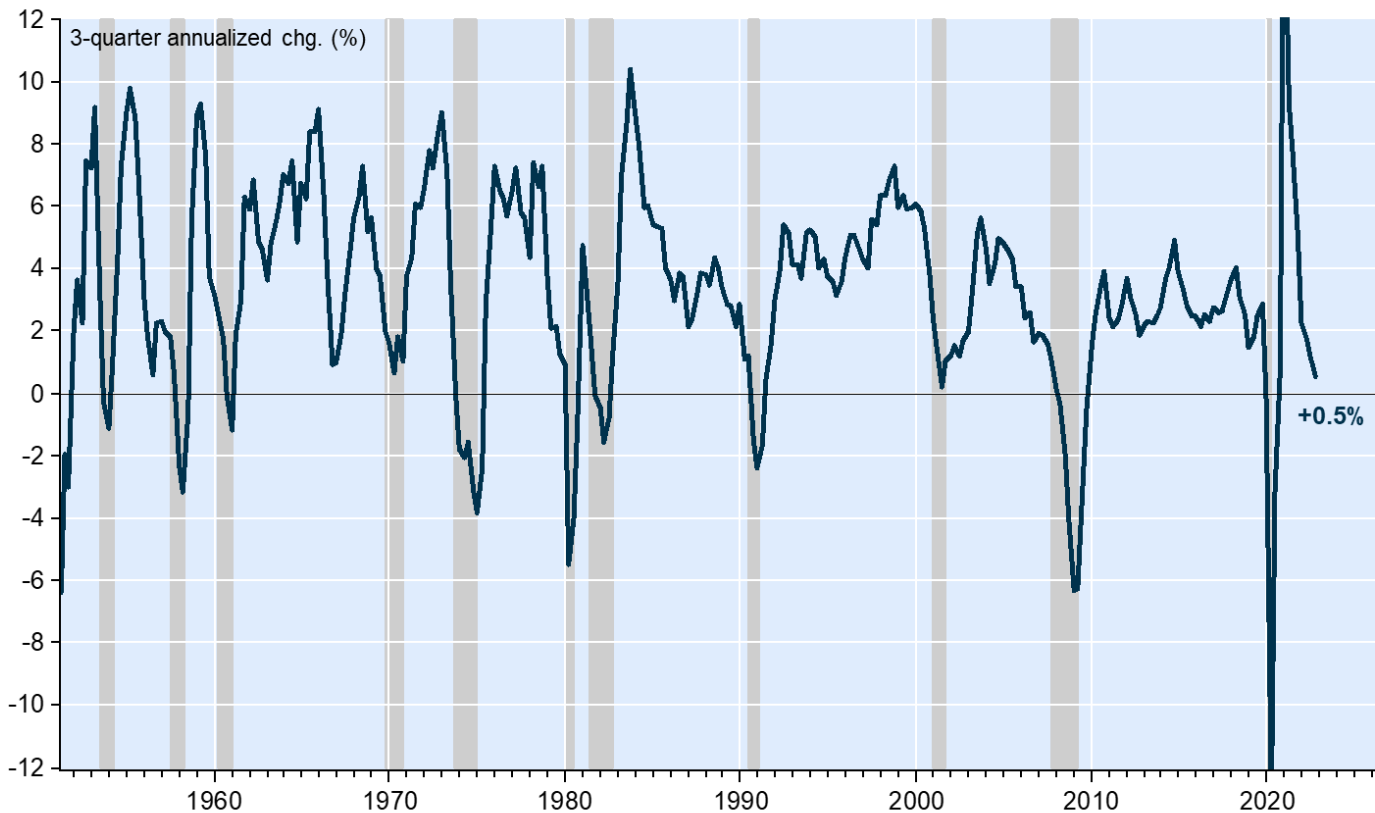
## U.S. Watch

By Jocelyn Paquet and Taylor Schleich

Data released yesterday by the Bureau of Economic Analysis (BEA) showed real GDP expanding at a stronger-than-expected pace in Q4 (+2.9% vs. +2.6%). While some may have cheered this positive surprise, we saw the glass as half empty. Roughly half of the growth reported in the final quarter of 2022 was due to a buildup in inventories, which have an unfortunate tendency for short-term mean reversion. Sinking imports also contributed positively to the headline print, hardly reassuring considering this may well have been caused by a slowdown in domestic demand. Adding to the bad news, final sales to private domestic purchasers (household consumption + gross private investment), a good gauge of the underlying strength of an economy, expanded just 0.2% annualized in the quarter, the least since 2009Q4 if we exclude the early days of the pandemic. As today's Hot Chart shows, this key measure is up just 0.5% annualized over the past 3 quarters (i.e. since the Fed started tightening monetary policy). When has such weak growth been observed over 9 months in the past you may ask? Answer: 2020, 2008-09, 2001, 1990-91, 1981-82, 1980, 1973-75, 1960-61, 1958, 1953-54, 1951 and 1949. Our readers may have spotted a pattern here: in eleven of those 12 instances, the U.S. economy was either in recession or about to enter one (1951 being the exception). The scenario could very well be the same this time around if the Fed persists in raising its key rate well beyond the current level and holding it there for an extended period. Doing so could have unpalatable consequences down the road.

### U.S.: Slowdown in private demand calls for extreme caution from the Fed

Final sales to private domestic purchasers (household consumption + gross private investment)



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