

Morning Market Tidbits

A drag from inventories

In focus

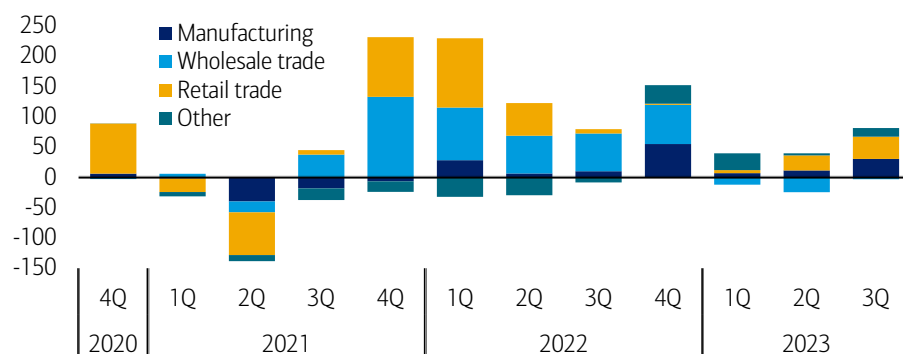
Later this week, we expect the BEA's advance estimate of 4Q US GDP to come in at 1.5% q/q saar, which would represent a sharp deceleration from the third estimate of 3Q GDP of 4.9%. Incoming data continue to point to a resilient, but cooling, US economy, led by consumer spending on the back of a tight labor market, higher than expected holiday spending, and moderately strong balance sheets. We expect 4Q consumer spending to come in at 2.0%.

One of the main contributors to the surprisingly strong 4.9% annualized quarterly growth rate in 3Q 23 was the change in private inventories, which added 1.3pp to growth. Three of the four main sources for the BEA's estimate of inventory accumulation made positive contributions in the quarter, including manufacturing, retail trade, and "others", which rose by \$81.1bn. Only the change in wholesale inventories (-\$3.3bn) posted a decline, and a small one at that. In the 4Q 23 GDP estimate, we expect much lower inventory accumulation at \$29.5bn for a drag on growth of 0.9pp.

In addition to the incoming data that informs our high frequency GDP tracking estimate, we are inclined to believe that outsized moves in inventories are likely to be reversed in subsequent quarters since inventories are in line with their long-run historical average (in proportion to post-financial crisis change in final sales). Inventory destocking through the early stages of the pandemic – where household demand for goods met supply chain constraints – was sizeable. This was then followed by a period of inventory rebuilding, where the change in private inventories outpaced that consistent with growth in final sales throughout 2022. By the third quarter of last year, private inventory accumulation was back in line with its post-financial crisis average, suggesting the effect of the change in relative demand on inventory accumulation had run its course. If so, we would expect inventory accumulation to revert to more normal business cycle behavior where outsized gains in any one quarter are likely to be reversed in the next.

Exhibit 1: Change in private inventories (\$bn, 2012 dollars)

Inventories made a sizeable positive contribution to 3Q 23 growth



Source: BEA, Haver Analytics, BofA Global Research

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(Continued on next page)

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GDP: Gross Domestic Product

BEA: Bureau of Economic Analysis

Market action

The Asian equity markets that we cover closed mixed overnight. Looking at individual markets, the Indian Sensex and the Nikkei fell 1.5% and 0.1% respectively. On the flipside, the Shanghai Composite, the Korean Kospi and the Hang Seng rose 0.5%, 0.6% and 2.6% respectively.

As of 7:00 am ET, aggregate European stocks are down 0.2% and S&P500 futures are flat. In the bond markets, 10-year Treasury yields are up 2bp to 4.13% and German Bund yields are up 2bp to 2.31%. The dollar index is up \$0.10 to \$103.43. WTI crude oil prices are \$0.85 lower at \$73.91/bbl, and gold prices are at \$2024.06/oz.

Data previews

January 23

Philadelphia Fed Non-Manufacturing Index

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
1/23/24	8:30	Philadelphia Fed Non-Manufacturing Index	Jan	-5	-6	-11

Source: BofA Global Research, Bloomberg

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US GDP Tracking

Exhibit 2: BofA US GDP tracking estimate (% q/q saar)

Our 4Q GDP tracking estimate is up two-tenths to 1.5% q/q saar, largely due to higher than expected December retail sales, housing starts and permits, and import prices

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
1/11/24	CPI	1.3	2.0	1.9	-0.2	3.3	2.8	2.5	2.3	2.2	2.2	-935.5	26.5
1/12/24	PPI	1.3	2.0	1.9	-0.2	3.6	2.8	2.5	2.3	2.2	2.2	-935.5	27.0
1/17/24	Retail Sales	1.4	2.1	2.0	0.2	3.6	2.8	2.5	2.3	2.2	2.2	-935.5	27.0
1/17/24	Industrial Production, Business Inventories	1.3	2.1	2.0	0.2	3.5	2.5	2.5	2.3	2.2	2.2	-935.5	26.3
1/17/24	Import and Export Prices	1.4	2.1	2.0	0.2	3.5	2.5	2.5	2.3	2.4	1.8	-930.8	26.3
1/18/24	Housing Starts and Permits	1.5	2.1	2.0	0.6	3.5	2.5	2.5	2.3	2.4	1.8	-930.8	26.3
	GDP tracking	1.5	2.1	2.0	0.6	3.5	2.5	2.5	2.3	2.4	1.8	-930.8	26.3
	Contribution to GDP growth (pp)			1.3	0.0	0.1	0.1	0.1	0.4			0.0	-0.7
	BofA official GDP forecast	1.5	2.5	2.0	1.0	3.5	2.5	2.5	2.0	2.5	2.0	-929.0	29.5

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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