Modest Upward Revision to GDP in Q4; Huge Increase in GDI

- There was a modest upward revision to real GDP growth in the fourth quarter, to 3.4%.
- Corporate profits rose in the fourth quarter by the biggest amount in two years.
- Real gross domestic income increased by a huge 4.8% in the fourth quarter, after noticeably lagging GDP for the previous four quarters.
- The US economy will continue to expand throughout 2024.

Real GDP increased 3.4% at a seasonally-adjusted annualized rate in the fourth quarter of 2023, according to the third estimate from the Bureau of Economic Analysis. GDP growth was reported at 3.3% in the advance estimate and 3.2% in the second estimate.

Compared to the second estimate, there were upward revisions to consumer spending, business fixed investment, and state and local government spending. These were partially offset by downward revisions to investment in private inventories and exports. Imports were revised lower; lower imports boost GDP.

Corporate profits rose by $133.5 billion the fourth quarter of 2023 from the third quarter, a 4.1% increase (not annualized, not adjusted for inflation). Profits have risen for three straight quarters, and this was the biggest increase in profits since the second quarter of 2022. Domestic profits rose by $142.4 billion, with profits from the rest of the world falling by almost $9 billion. Nonfinancial profits accounted for the bulk of the increase in domestic profits, $136.5 billion.

Real gross domestic income, an alternative measure of the size of the economy that measures the income going to households and businesses from economic activity, increased a huge 4.8% annualized in the fourth quarter of 2023 from the third quarter. This was the biggest increase in GDI since the fourth quarter of 2021. Real GDP and GDI should be equal in theory, but GDI growth has lagged well behind GDP growth for the past year; that gap narrowed in the fourth quarter. That both measures increased at a pace well above 3% in the fourth quarter indicates that the US economy did very well at the end of 2023.

On a year-over-year basis real GDP increased 3.1% in the fourth quarter of 2023, with real GDI up 1.9%. The average of the two is growth of 2.5%, above the economy’s long-run potential. Overall growth in 2023 was very good despite higher interest rates as the Federal Reserve tightened monetary policy in an effort to slow inflation. The US economy is maintaining solid growth so far in 2024. PNC expects real GDP growth of around 1.6% this year, which would be a decent gain, albeit below the pace of the past couple of years. Consumer spending will continue to increase, but at a slower pace, thanks to the excellent labor market and rising household wealth. Business investment will remain steady as firms respond to increasing demand and lower interest rates. After a surge over the past year government spending growth will ease. Inventory accumulation will be a drag in the first part of this year, after a big increase in the second half of 2023. Trade will be a drag with slowing global growth, but housing is turning around and will be a small contributor to growth with mortgage rates are down somewhat since the fall.
PNC expects the Federal Open Market Committee to cut the fed funds rate, its key short-term policy rate, sometime in the second quarter of 2024 and a couple of more times through the rest of year as inflation continues to gradually slow to the committee’s 2% objective. This will support the economy in the second half of 2024 and into 2025.

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