ECONOMIC UPDATE
REGIONS
March 13, 2026

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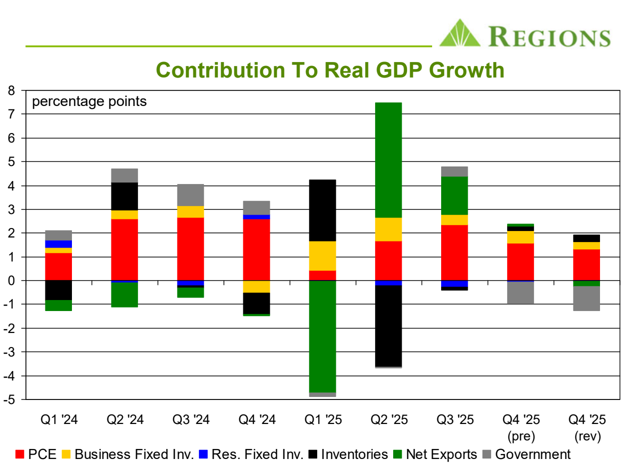
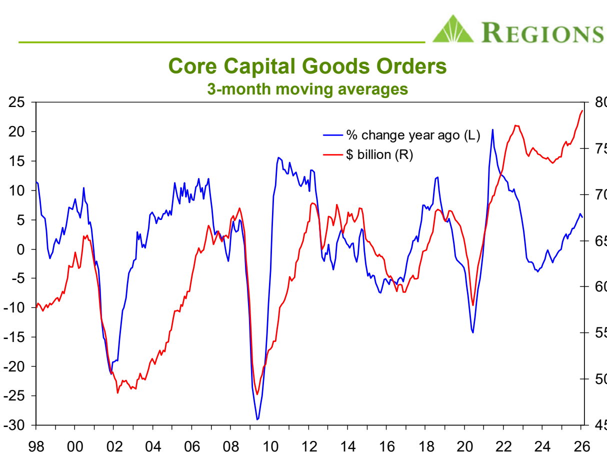
Data Summary: Q4 GDP 2nd estimate; January Durable Goods; January Personal Income

This morning saw a heavy volume of economic data, most of which was underwhelming, at least relative to our expectations. The BEA's second estimate shows annualized **real GDP growth** of 0.7 percent in Q4 2025, cutting in half their initial estimate Real private domestic demand, or, combined business and household spending, is now reported to have grown at a 1.9 percent rate in Q4, down from the initial estimate of 2.4 percent growth. One factor here is that growth in real consumer spending was marked down, with growth now pegged at a 2.0 percent rate rather than the 2.4 percent rate originally reported. While growth in spending on goods was revised modestly higher, growth in services spending was revised lower. Recall that BEA estimated that the government shutdown took just over one percentage point off Q4 real GDP growth, and while overall government spending was revised lower, that is due to a sharp downward revision in state and local government outlays on construction projects, with little change to the initial estimate of federal government spending. Recall that the hit to Q4 real GDP stemming from the federal government shutdown will be mostly made up for in the Q1 2026 data. A wider trade deficit than first reported, reflecting a bigger drop in U.S. exports of services, also contributed to the downward revision in top-line real GDP growth. Growth in real business fixed investment was revised sharply lower, but the main culprit here is a substantial downward revision to spending on structures. That there were sizable revisions to the original estimates of private and public sector construction spending owes to the delays in the release of the monthly data on construction spending that meant the BEA's initial estimates were made with very little actual data in hand. Either way, declining business spending on structures, aside from data center construction, has been a persistent drag on real GDP growth and is likely to remain so, even if to a lesser degree. There was also a downward revision to business spending on intellectual property products owing to less spending on computer software than BEA had assumed in their first estimate of Q4 real GDP. We will, however, note that the BEA's initial estimate of business spending on equipment and machinery was revised higher, now shown to have grown at a 3.9 percent rate in Q4, which is consistent with the strong growth in core capital goods orders over the past several months.

In that sense, the January data on **durable goods orders** come as a rude surprise. Total durable goods orders were unchanged in January, and while ex-transportation orders were up 0.5 percent, orders for core capital goods were unchanged, though this comes on the heels of a stronger than anticipated 0.8 percent increase in December. We routinely cite core capital goods orders (nondefense capital goods excluding aircraft and parts) as the single most important line item in the monthly reports on durable goods orders, as they are an early indicator of business investment in equipment and machinery as reported in the GDP data. The January data on core capital goods orders are very much a mixed bag, with higher orders for machinery, metals, communications equipment, and computer equipment being negated by lower orders for transportation equipment and electrical equipment. On the whole, orders for core capital goods, particularly business equipment and machinery, remain firm, and it helps to put the January data in the context of what had been a string of solid advances over the prior several months. That can be seen in the chart below; the data are quite volatile on a month-to-month basis but the underlying trends point to continued solid growth in business investment.

Total personal income rose by 0.4 percent in January, smaller than the 0.7 percent increase our forecast anticipated largely owing to a smaller increase in transfer payments than we anticipated. Aggregate private sector wage and salary earnings rose by 0.6 percent, leaving year-on-year growth north of 4.0 percent. A jump in dividend income more than offset another meager gain in interest income, pushing asset-based income up by 1.2 percent. The smaller gain in transfer payments in part reflects lower Medicaid reimbursements and unemployment insurance payouts. **Total personal spending** rose by 0.4 percent in January, ahead of what we expected, with the increase entirely accounted for by higher services spending as spending on goods fell by 0.4 percent. That is not entirely surprising as we knew spending patterns were meaningfully disrupted by the atypically harsh winter weather that gripped much of the nation over the latter part of the month. That also helps account for the weak print on discretionary services spending, categories such as travel and lodging, and the sharp increase in utilities outlays that, along with health care, were the primary drivers of services spending. The **PCE Deflator** rose by 0.3 percent in January while the **core PCE Deflator** was up by 0.4 percent, yielding year-on-year increases of 2.8 percent and 3.1 percent, respectively. The PCE Deflator is a reminder of how stubborn inflation pressures were proving to be even prior to the conflict in the Middle East.





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