US economy

US economy defies recession fears with 3.3% growth in fourth quarter

Figure caps 'standout' performance in 2023, giving boost to Joe Biden's re-election hopes

The US economy was expected to stagnate in 2023 © Bloomberg

Claire Jones in Chicago and **James Politi** in Washington JANUARY 25 2024

The US economy grew at a 3.3 per cent annualised rate during the final quarter of last year, capping off a strong 2023 that defied recession fears and prompted President Joe Biden to attempt to claim credit.

The figures pointed to the US economy's remarkable resilience in the face of the Federal Reserve's sustained campaign to snuff out inflation with higher interest rates — and encouraged investors who believe the central bank will cut rates in the coming months.

For the year as a whole, the US economy expanded by 3.1 per cent, confirming it was the world's fastest-growing advanced economy in 2023.

"This GDP reading cements America's position as the dominant driver of global growth," said Eswar Prasad, an economics professor at Cornell University.

Separate data released on Thursday showed consumer prices rose at an annual rate of 1.7 per cent in the fourth quarter, down from 2.6 per cent three months earlier.

The twin sets of data suggest the economy is headed for a "soft landing", in which inflation is tamed without triggering a recession.

The numbers will also be a boost for Biden ahead of November's presidential election, as his strategists try to reverse widespread public dissatisfaction with his handling of the economy that has cast a cloud over his re-election hopes.

The most recent Financial Times-Michigan Ross poll showed 60 per cent of voters surveyed disapproved of Biden's stewardship of the economy, with lingering high prices for staple goods featuring among respondents' complaints.

But a Pew Research survey published on Thursday showed sentiment was improving, with 28 per cent of respondents polled last week describing the economy's performance as "excellent" or "good", up from 19 per cent in April.

The White House has been desperate to improve voters' perceptions, touting a boom in capital investment and job creation in the past year, while Republican Donald Trump has made the recent bout of high inflation core to his populist election campaign.

Janet Yellen, the US Treasury secretary, said in Chicago on Thursday afternoon that it was the administration's measures to boost the economy that had sparked a revival "that is remarkable for both its speed and its fairness".

"Though some forecasters thought a recession last year was inevitable, President Biden and I did not," Yellen said. "Instead of contracting, the economy has continued to grow, driven by American workers and President Biden's economic strategy."

While the pace of growth in the fourth quarter cooled from the breakneck 4.9 per cent rate set in the previous three months, it was far higher than economists had expected. The 3.1 per cent expansion for the year as a whole also beat forecasts.

US stocks and bond prices moved higher on Thursday, with the S&P 500 gaining 0.5 per cent. US Treasuries extended the session's rally, with the yield on the policy-sensitive two-year note down 0.06 percentage points to 4.31 per cent.

Prasad said the good numbers from the US contrasted with bleaker outlook elsewhere in the global economy.

This “unexpected standout performance is the economic story of 2023 and a positive omen for what is otherwise shaping up as a gloomy year ahead for global growth”, he said.

Yellen said the US’s strong performance was “the fastest on record” — and more than just a post-pandemic rebound. “We have also focused on unsnarling supply chains and bringing more Americans into the labour force,” she said.

Yellen’s speech in Chicago comes as she prepares for a number of events designed to change American voters’ perceptions of Bidenomics in the run-up to November.

Thursday’s GDP and inflation figures come as other central banks weigh when to cut rates this year as inflation begins to home in on their 2 per cent target.

The European Central Bank on Thursday said it would hold eurozone rates steady at a record high of 4 per cent, but noted inflation was falling in line with its expectations, despite a rise in December.

In the press conference following the decision, ECB president Christine Lagarde said the rise in European inflation in December had been “weaker than expected” and forecast price pressures would “ease further over the course of the year”.

Additional reporting by Stephanie Stacey and George Steer in London