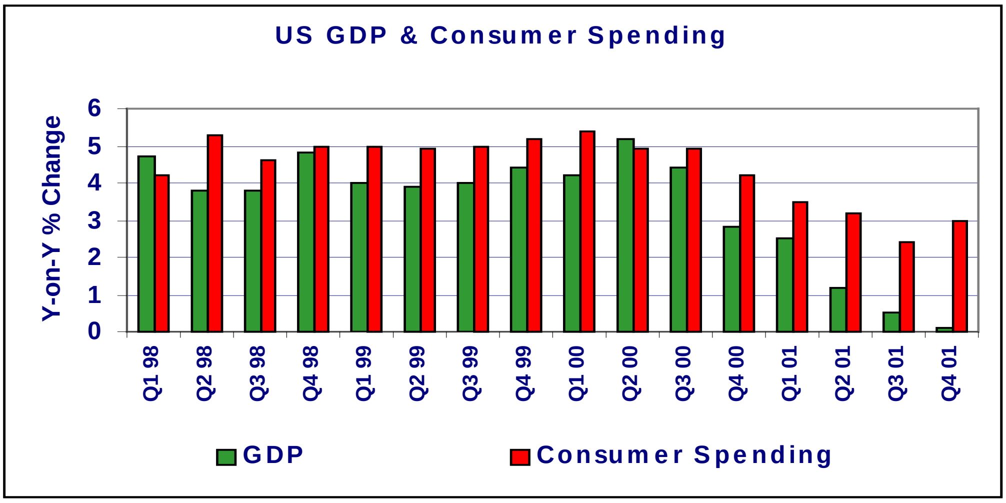
AIB Group Treasury
Economic Services Unit

Consumers Demand for Cars Buoys US Economy in Q4



(Annualised % Growth Rate)	**2001**	**Q4 '01**	**Q3 '01**	**Q2 '01**	**Q1'01**
GDP	1.1	0.2	-1.3	0.3	1.3
Consumer Spending	3.0	5.4	1.0	2.5	3.0
Business Investment	-3.1	-12.8	-8.5	-14.6	-0.2
- Equipment Software	-4.4	-5.2	-8.8		
Housing Investment	1.4	-6.4	2.4	5.9	8.5
Exports	-4.6	-12.4	-18.8	-11.9	-1.2
Imports	-2.5	-3.4	-13.0	-8.4	-5.0
Government Purchases	3.5	9.2	0.3	5.0	5.3
Inventory Change (US$ bln)	-62.0	-120.6	-61.9	-38.3	-27.1

According to initial estimates, US GDP grew by 0.2% in the fourth quarter of last year. The economy had been expected to contract by 1.0%. Heavy spending on autos and other durable goods was the main reason for the positive outturn. Consumer spending rose 5.4% annualized in the fourth quarter. Within this, spending on autos (due to zero financing options) and other durable goods by consumers was up 38.4%, the highest growth rate since Q3 1986. Excluding the nearly $60 billion rise in auto sales, consumer spending growth was less than 2%.

The rise in consumer spending was once again offset by increased weakness in business spending, inventories and the trade balance. Business investment fell –12.5%, but the rate of decline in investment in equipment and software continued was at a more moderate 5.2%. The cutbacks to private inventories nearly doubled in the fourth quarter. Compared to flat inventory conditions, these cutbacks cut 2.2% from growth. After a poor outtrun in Q3, government spending bounced back strongly, increasing by 9.2%. The implicit price deflator for overall GDP fell 0.3%, suggesting that no inflationary trend is evident.

Does this better than expected result mean that the US recession is over. Things do seem to be turning around but Q1 2002 is likely to produce another weak growth rate and there are still concerns about the economy. The end of the inventory liquidation, which should be taking place around now, will trigger a pick-up in industrial production which should in turn boost the overall GDP rate. However, the recovery will be short lived unless sustained growth of final demand kicks in. The strength of the consumer was sharply boosted by extraordinary auto sales, and as this cannot be maintained going forward some weakening is expected for the first quarter.

Geraldine Concagh
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