

Economic Indicator — July 25, 2024

Economic Growth Exceeded Expectation in Q2

Summary

The economy expanded at a 2.8% annualized rate in the second quarter. While that handily exceeded expectations, we suspect that it may be the fastest GDP growth rate we are apt to see for the foreseeable future.

Economist(s)

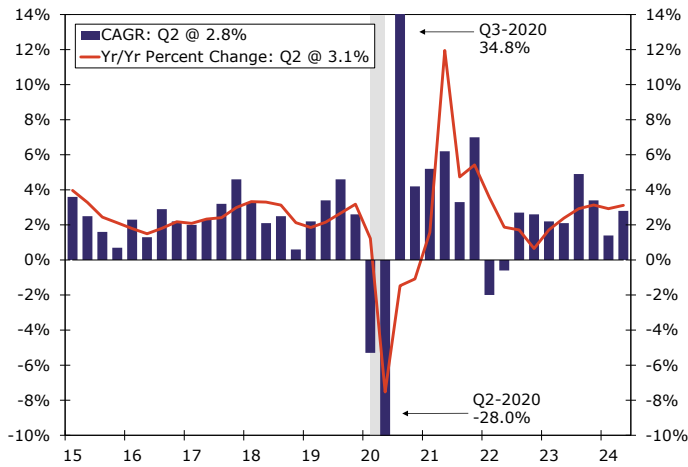
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U.S. Real GDP Growth



Source: U.S. Department of Commerce and Wells Fargo Economics

Coming in Hot

The economy picked up speed in the second quarter as GDP growth came in at 2.8% which was double the 1.4% rate in the first quarter ([chart](#)). The composition of growth was broadly based at least in terms of domestic demand.

Business fixed investment was sturdy as well although the composition of spending went in different directions. Outlays on structures contracted at a 3.3% annualized rate, giving back almost all the first quarter gains. But intellectual property spending extended its run of increases growing at a 4.5% clip in the quarter.

The fastest growth within business fixed investment came from equipment spending which grew at a blistering 11.6% annualized rate ([chart](#)). That is the biggest gain in equipment outlays since the first quarter of 2022. That is hard to reconcile with lackluster orders data and wilting business sentiment. A look at the underlying components lends some perspective. Most of the gain in equipment came from transportation and information processing. Firms actually cut back on industrial equipment during the quarter and "other" equipment outlays were essentially flat.

Consumer Spending Major Driver... For Now

While there are plenty of signals the consumer is becoming more choosy and price sensitive, consumer spending expanded at a faster clip in the second quarter as well, growing at a 2.3% rate. That too marks a brisker pace relative to the 1.5% annualized growth rate in Q1.

Perhaps the biggest thing to understand about today's report in the context of where growth is headed in the second half of the year is where things stand with the consumer. More than half the growth in the second quarter came from consumer spending which contributed 1.6 percentage points to the overall 2.8% growth rate.

Consumer spending on motor vehicles in particular was strong with spending in that category alone adding more than a tenth of a percentage point to headline growth. Yet as the nearby [chart](#) shows, spending on vehicles and gas are the only two categories down relative to where they were last year. Elsewhere, the composition of spending tends to be more reflective of a consumer that is pivoting toward spending on essentials such as healthcare and housing.

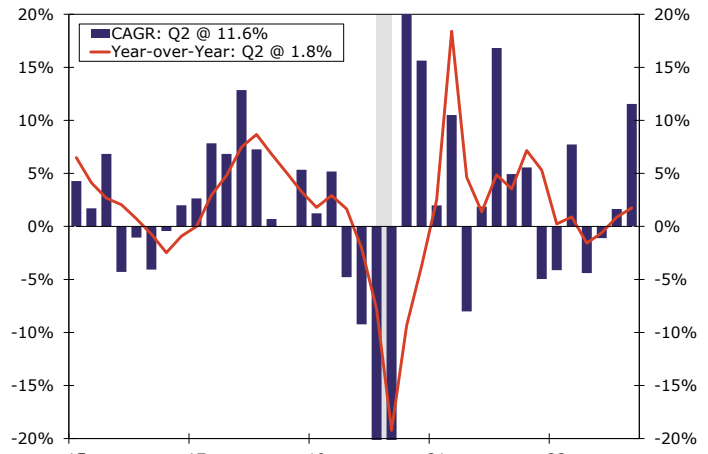
The unstoppable consumer is showing some signs of fatigue amid a lower take-up in revolving credit debt and slower growth in discretionary spending. We anticipate a moderation in consumer spending in the second half of the year.

But a Drag From Trade

A quickening in consumer spending, business fixed investment and government expenditures meant a faster pace of import growth as well. But since export growth did not keep up, trade lopped off 0.72 percentage points from the headline figure. That is the biggest drag from net exports since the first quarter of 2022.

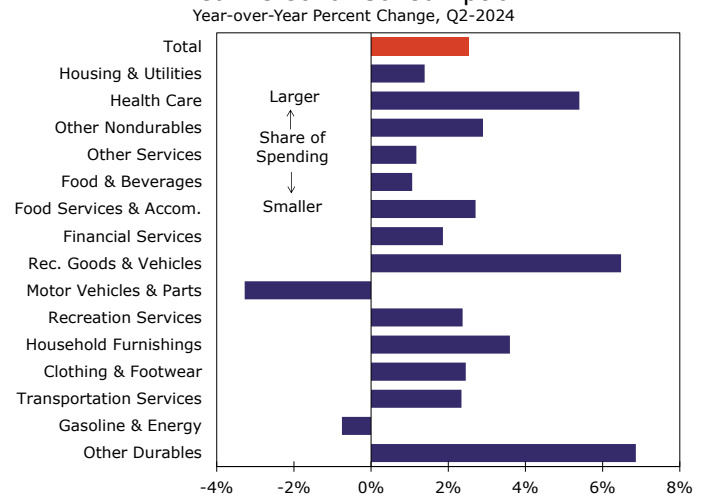
Over the past year, real imports of merchandise goods are up 5.3%, while real exports are up a softer 3.7%. As domestic demand cools in the second half of 2024, we expect trade to become a neutral factor on overall GDP growth. Although in the wake of a sharp drag from trade, it is not unusual to get a bounce-back in a subsequent quarterly print. We will keep an eye on the higher frequency trade data to assess the potential for such a development in the second half of the year.

Real Equipment Investment



Source: U.S. Department of Commerce and Wells Fargo Economics

Real Personal Consumption



Source: U.S. Department of Commerce and Wells Fargo Economics

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