

Economic Indicator — August 29, 2024

# Faster Consumer Spending Lifts Q2 GDP Growth to 3.0%

## Summary

Consumer spending propelled the economy to a 3.0% annualized growth rate in Q2, an upward revision that exceeded expectations. A rebound in profits growth recouped all the prior quarter's decline and then some to restore profits to a record high.

Economist(s)

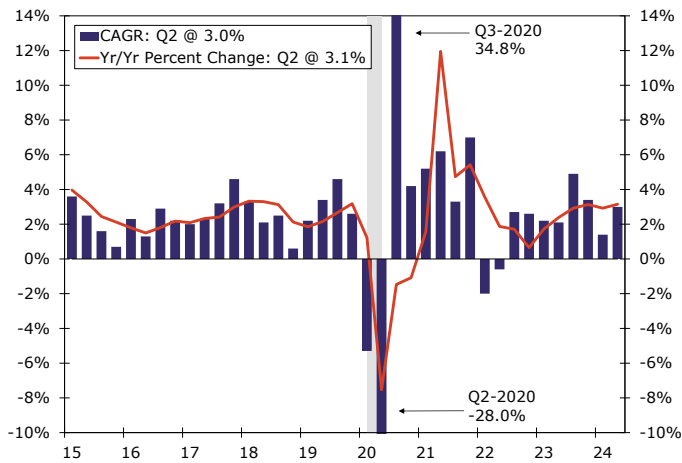
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U.S. Real GDP Growth



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

### Consumer to Rest of Economy: I Got This

With the benefit of additional data, the Commerce Department upwardly revised the annualized growth rate for the U.S. economy to 3.0% in the second quarter (chart). Most of the upward revision can be attributed to a more robust pace of consumer spending, which is now reported to have grown at a 2.9% annualized rate, up from 2.3% previously (chart). There is plenty of evidence that restrictive policy is weighing on the labor market and on construction, where revisions today revealed a more measured pace of structures investment and an outright decline in residential investment.

But with +1.95 percentage points of the overall 3.0% growth rate coming from consumer spending, it is less clear that higher-for-longer is posing a major impediment to household spending, no matter how much sentiment and confidence measures may say otherwise.

The faster pace of consumer spending along with stronger business fixed investment (more on that below) and government expenditures meant a faster pace of import growth as well. But since export growth did not keep up, trade subtracted 0.77 percentage points (PP) from the headline figure, a slight bit more than the 0.72 PP drag reported previously. That is the biggest drag from net exports since the first quarter of 2022. 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.

### We're Still Profitable

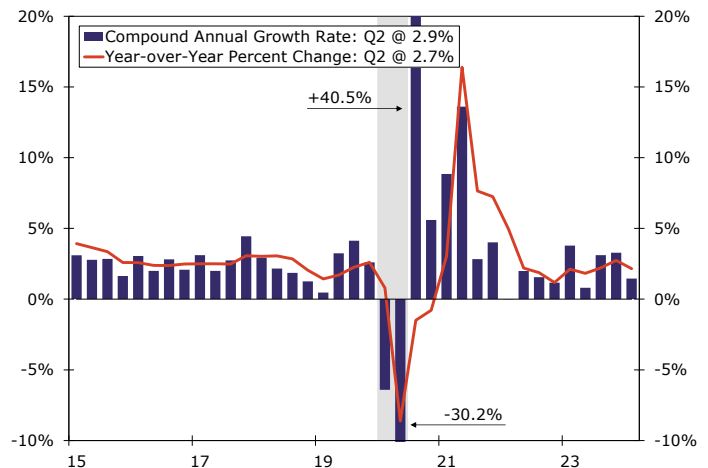
Solid consumer spending meant firms also grew more profitable in the second quarter. The second release brings with it the first estimate of corporate profits, which rose \$57.6 billion on a pre-tax basis, or by 1.7% (not annualized) during Q2. This more than reversed the pullback in the first quarter of the year and pushed economy-wide profits to an all-time high, signaling businesses are still seeing strong demand. All the gain was in domestic-industry profits, whereas foreign profits slipped during the quarter. On a year-ago basis, profits bounced 8.0%, which is the fastest pace since the end of 2022 (chart). While a slower pace of hiring signals some hesitation among businesses to take on additional help, continued consumer resilience, even as households are growing a bit more choosy in their purchases, is boosting profitability and allowed for continued growth through the first half of the year.

The income side of the economy was slightly weaker overall last quarter. Real gross domestic income (GDI) rose at a lower 1.3% annualized rate in the second quarter. In theory GDP and GDI should be equivalent, as output should generate an equivalent amount of income, but they differ slightly in reality. Real GDI signals a slightly slower pace of growth in the second quarter, but in averaging the two the data suggest the economy grew at a still solid pace of just north of 2%.

### Investing in the Future

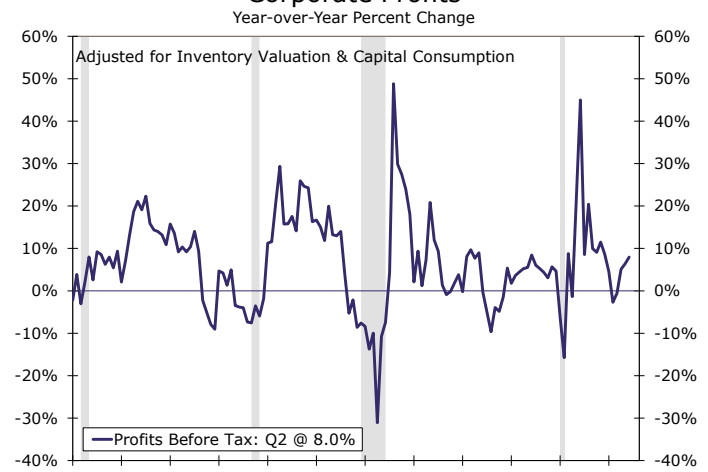
Equipment spending grew at a 10.8% annualized rate, down slightly from the initially reported 11.6%. In a week that has largely been characterized by a fixation with tech earnings and the viability of the AI

### Real Personal Consumption Expenditures



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

### Corporate Profits



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

rally, it is easy to look past a stodgy measure of economic health such as GDP. Yet if we look carefully, we can pick up some insights about how businesses are rethinking their capital allocations this year amid the hubbub associated with AI.

Yes, equipment spending outpaced spending on intellectual property products, but look more closely. 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.

Intellectual property products refers to firms’ spending on software, research & development as well as entertainment, literary & artistic originals. Not only is it the largest category of investment spending today, it has also accounted for almost all the growth in the current cycle. In the second quarter, spending on intellectual property products grew at a 2.6% annualized rate during the quarter.

There is no guarantee this tech-focused spending will elicit a productivity boom, but to the extent that it does, it [would be good for growth](#).

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