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Q3 GDP: The U.S. Economy Continues to Clip Along at a Solid Pace

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Summary

- Real GDP grew a solid annualized rate of 2.8% in Q3-2024 relative to the previous quarter. On a year-ago basis, output was up 2.7% in the third quarter, stronger than the 2.4% per annum growth rate that was registered during the last economic expansion in 2010-2019.
- Consumer spending once again stole the show. Overall spending remained solid in the third quarter, with real personal consumption expenditures (PCE) advancing at a 3.7% annualized rate.
- Investment spending was also strong in the third quarter, with real business spending on equipment up more than 11%. That said, spending on intellectual property products was essentially flat, while structures (i.e., non-residential construction) posted a modest contraction.
- We look for the U.S. economy to continue to expand in coming quarters, although not quite as strongly as it has recently. Policy changes in the wake of next week's election could potentially lead to modifications of our forecast. We may make some changes to our forecast once we know the results of the election. Our Annual Economic Outlook webinar is scheduled for Thursday November 21.

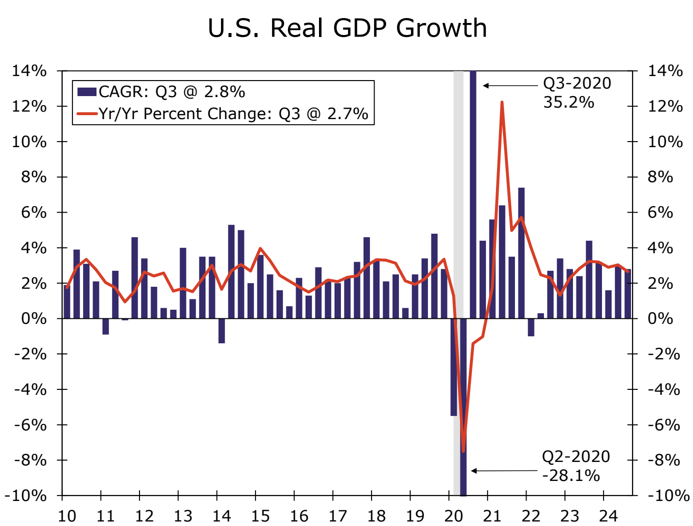
Real GDP Grew At a Solid Pace, Yet Again, in Q3-2024

Data released this morning showed that real GDP rose at an annualized rate of 2.8% in Q3-2024 relative to the second quarter (chart). The outturn was a tick weaker than the 2.9% growth rate that the Bloomberg consensus forecast had anticipated. Nevertheless, real GDP grew 2.7% on a year-ago basis in the third quarter, stronger than the 2.4% per annum rate that was registered during the last economic expansion in 2010-2019. In short, the U.S. economy continues to clip along at a solid pace.

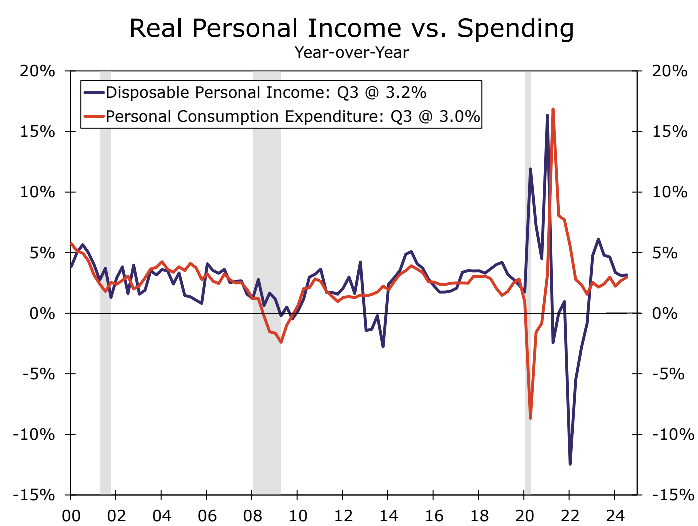
Consumer spending once again stole the show. Overall spending remained solid in the third quarter, with real personal consumption expenditures (PCE) advancing at a 3.7% annualized rate. That's the fastest pace in six quarters and the details suggest spending was broad-based across categories—real spending on goods rose at a 6.0% annualized clip while services consumption rose at a pace fairly steady with Q2 (+2.6%). Household purchasing power has faded and once again become more reliant on income growth. Yet while the labor market has shown signs of moderating, income growth is still supportive of spending (chart). Real disposable personal income and spending were both up around 3% over the past year. Households continue to face their fair share of challenges with still-high prices at the top of the list, but that doesn't appear to be deterring them from spending.

Businesses also spent more last quarter, but the gain in investment spending is not necessarily a sign of a renewed pickup in capex as the details are somewhat mixed. Most of the gain is attributable to real equipment investment, which popped 11.1% in Q3. Just over half of that, however, came from transportation equipment, most likely spending on aircraft specifically, based on previously released durable goods data. Most of the other strength in equipment was tied to increased spending on information processing equipment, which has been a bright spot in an otherwise flagging environment. Elsewhere, there was only a modest gain in intellectual property investment and structures investment slipped. We do, however, anticipate the economic environment is growing more supportive of capex amid some policy clarity that will accompany the upcoming presidential election, further Fed easing and simply the fact that some equipment needs replacing.

Residential investment spending pulled back for the second consecutive quarter as well as the sector continues to struggle amid higher rates and still-strapped inventory. All told, economic growth would have been even stronger in Q3 if it weren't for a pop in imports (+11.2%) that swamped what was an impressive gain in exports (+8.9%). A smaller gain in inventories also subtracted a couple tenths from headline growth. Real final sales to private domestic purchasers, an indication of domestic U.S. demand that cuts through some of the volatility, rose a stronger 3.2% in Q3.



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



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

Monthly real PCE data for September are slated for release tomorrow. The 3.7% annualized increase in real PCE in Q3 that was reported today implies that real consumer spending shot up 0.6% in September, assuming no upward revision to spending data in July and August. In other words, the economy appears to have entered the fourth quarter with a good head of steam. But the strong growth rate may have some negative implications for the Fed's battle against inflation. This morning's data showed that the core PCE deflator rose at an annualized rate of 2.2% in Q3 relative to the previous quarter, a tick above the 2.1% rate the consensus forecast had anticipated. This quarterly growth rate implies that core PCE prices rose 0.3% in September relative to the previous month, a tick above the 0.2% increase the consensus currently anticipates.

We look for the U.S. economy to continue to expand in coming quarters, although not quite as strongly as it has recently. We also forecast that core PCE inflation, which in August came in at 2.7% on a year-over-year basis, will slowly recede toward the Fed's target of 2% next year. That said, policy changes in the wake of next week's election could potentially lead to modifications of our forecast. We may make some changes to our forecast once we know the results of the election. Our Annual Economic Outlook webinar is scheduled for Thursday November 21.

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