# ECONOMIC UPDATE

REGIONS

October 30, 2024



## Q3 2024 GDP – 1st Estimate: Good, Just Maybe Not That Good . . .

- The BEA's initial estimate shows real GDP grew at an annualized rate of 2.8 percent in Q3 2024 after growth of 3.0 percent in Q2
- Consumer spending, business fixed investment, and government spending were the main drivers of Q3 growth

The BEA's initial estimate puts Q3 real GDP growth at an annual rate of 2.8 percent, short of our forecast of 3.2 percent. The main drivers of Q3 growth were consumer spending, business spending on equipment and machinery, and government spending, while residential fixed investment and a wider trade deficit were drags on growth, with the wider trade gap the primary factor behind our forecast miss on top-line real GDP growth. Real private domestic demand, or, combined business investment and household spending, grew at an annual rate of 3.2 percent, topping the pace set in each of the prior two quarters. As we routinely note, we see real private domestic demand as the most meaningful indicator of the underlying health of the economy. As is our custom, we'll note here that the BEA's initial estimate of GDP in any given quarter is based on highly incomplete source data and, as such, prone to sizable revision as the gaps in the data are filled in. To that point, we do have some reservations about the reported strength in consumer spending in Q3, particularly given the degree to which the September data on control retail sales, a direct input into the GDP data, were bolstered by favorable seasonal adjustment, and the unadjusted Q3 GDP data suggest growth was less robust than implied by the headline (i.e., seasonally adjusted and annualized) print. The unadjusted Q3 data suggest that real GDP growth is settling back into the trend rate that prevailed in the decade prior to the pandemic, which for some time has been our assessment of a range of economic activity.

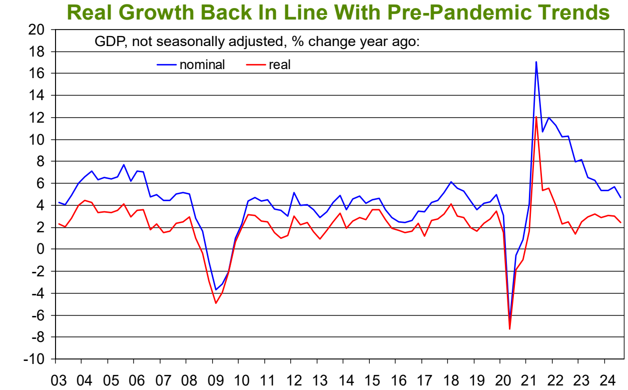
We noted in this week's *Economic Preview* that, based on our premise that the Q3 data could be flattered by seasonal adjustment, the estimate of unadjusted GDP would to us be the most meaningful line item in the report on Q3 GDP. The unadjusted data show real GDP increased by 0.79 percent, quarter/quarter, in Q3, which is below the average Q3 increase and the smallest Q3 increase since 2012. On a year-on-year basis, this leaves real GDP up 2.4 percent as of Q3, or, right in line with the average pace of growth that prevailed in the decade prior to the pandemic. While this is not the basis on which most analysts look at the GDP data, it is in keeping with how we process most of the economic data.

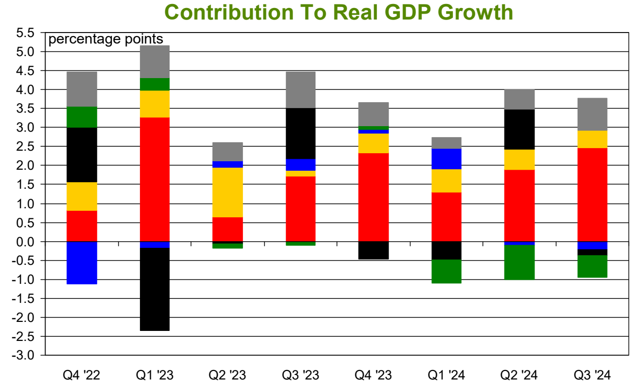
On a seasonally adjusted annualized basis, real consumer spending grew at a 3.7 percent pace in Q3, the fastest quarterly growth rate since Q1 2023. Real spending on goods grew at an annual rate of 6.0 percent in Q3, with even faster growth in spending on consumer durable goods. Real services spending grew at a 2.6 percent rate, matching Q2's growth rate. The reported growth in consumer spending in Q3 seems a bit at odds with other indicators of consumer spending as well as comments/guidance provided by individual retailers and service providers. Either way, we expect a meaningfully slower pace of growth in real consumer spending in Q4. After-tax personal income, adjusted for inflation, grew at an annual rate of 1.6 percent in Q3, the slowest pace of growth since Q3 2003, with a slower pace of growth in wage and salary earnings and a decline in asset-based income weighing on Q3 growth.

Business fixed investment grew at an annual rate of 3.3 percent in Q3, masking sharp divergences across the individual components. Outlays on equipment and machinery rose at an annual rate of 11.1 percent, on the heels of 9.8 percent growth in Q2. A key driver of this growth, however, has been transportation equipment, suggesting the Q4 data could show a marked slowdown in growth, if not an outright contraction, given rising inventories of motor vehicles and disruptions in aircraft production. Growth in intellectual property (IP) products investment has slowed sharply over the past two quarters, increases at annual rates of just 0.7 percent in Q2 and 0.6 percent in Q3; while this may be concerning, it does help to recall that this slowdown comes after a sustained period of notably rapid growth. . It is too soon to know whether IP spend is stabilizing at a high level or if the past two quarters reflect a pause in an ongoing up cycle, though we lean toward the latter. This matters given that IP investment tends to lead changes in labor productivity growth.

A wider trade deficit knocked six-tenths of a point off top-line real GDP growth in Q3, reflecting a surge in imports. To the extent that concerns over a widespread port strike led firms to pull imports forward accounts for that surge in imports, there will be payback in subsequent periods, meaning that trade will contribute to GDP growth when that happens.

Even if, like us, one doesn't necessarily buy the headline growth print, there is nothing in the Q3 GDP data to suggest anything less benign than the economy continuing to normalize back toward pre-pandemic trends. We expect this to remain the case over coming months.

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