ECONOMIC UPDATE

REGIONS

November 27, 2024

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Deluge Of Data Doesn't Really Change Much . . .

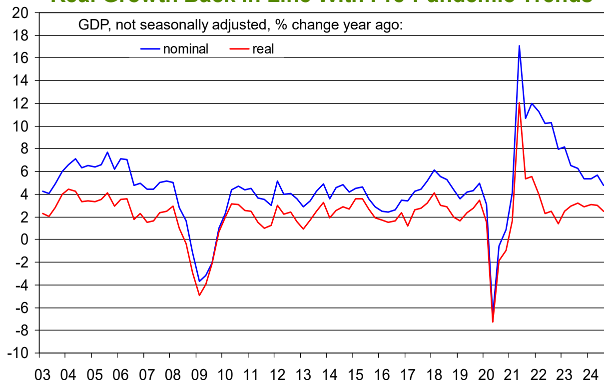
Revised and more complete source data show **real GDP** grew at an annual rate of 2.8 percent in Q3, matching the BEA's initial print as we and the consensus expected would be the case. Though the headline print is the same, there was some shuffling of the underlying details. Real consumer spending grew at an annual rate of 3.5 percent, down from the initial estimate of 3.7 percent. Growth in real business investment in intellectual property products was revised meaningfully higher while growth in spending on structures and on equipment/machinery was revised lower, with the net result being an upward revision to business fixed investment. In keeping with the theme of different details, same headline, the revisions to consumer and business spending leave growth in real private domestic demand at an annual rate of 3.0 percent, unchanged from the initial estimate. Today brought the initial estimate of Q3 real Gross Domestic Income (GDI), reported to have grown at an annual rate of 2.2 percent, with growth held down by declines in corporate profits, asset-based income, and Medicaid outlays (included in transfer payments in the personal income data). Of more interest is that the prior estimate of private sector wage and salary earnings in Q2 was revised sharply lower, reflecting the latest data from the Quarterly Census of Employment and Wages (QCEW). This in turn led to the prior estimate of Q2 growth in total personal income being revised downward. The first look at Q3 corporate profits shows a 0.3 percent decline from Q2, with lower foreign profits negating a mild increase in domestic profits, but on a year-on-year basis corporate profits were up 6.1 percent. The revised Q3 data show year-on-year growth in not seasonally adjusted real GDP of 2.5 percent, or, right line with the pre-pandemic trend rate.

Durable goods orders rose by 0.2 percent in October, and while one never really knows what to expect from the headline number, the details of the data were a bit softer than we anticipated. Ex-transportation orders were up by 0.1 percent while orders for core capital goods, an early indicator of business investment in equipment and machinery in the GDP data, fell by 0.2 percent, contrary to the 0.2 percent increase our forecast anticipated. At the same time, the initial estimate of September core capital goods orders was revised meaningfully lower. In keeping with a point we've been making for some time now, the October data leave core capital goods orders stuck within the narrow range that has prevailed since early-2023. With what figures to be a favorable mix of policies impacting capital spending, we look for core capital goods orders to break out of this range to the upside in the months ahead, but the prospect of higher and more broadly based tariffs on top of what is an already wobbly global growth outlook could limit the extent of any upside room.

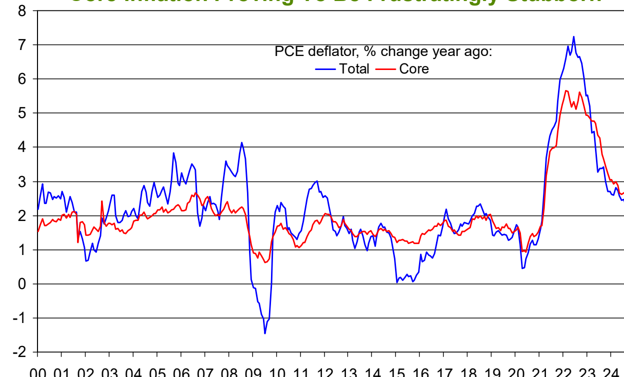
Total **personal income** rose by 0.6 percent in October, stronger than the 0.4 percent increase our above-consensus forecast anticipated. Growth in private sector labor earnings and in asset-based income came in slightly ahead of our forecast, but the biggest factor behind our miss on top-line income growth was a much stronger increase in transfer payments than we expected, driven by Social Security benefits, Medicare payments (which count as personal income but are payments to service providers as opposed to cash in consumers' pockets), and unemployment insurance benefits, reflecting the spike in filings in the wake of Hurricanes Helene and Milton. Absent the boost from transfer payments, which won't be sustained, the personal income data for October are roughly in line with what we expected. It is worth noting that aggregate wage and salary earnings, the largest component of personal income, were up 5.6 percent year-on-year, easily outpacing inflation, as has been the case over this entire episode of elevated inflation. Total **personal spending** rose by 0.4 percent in October, shy of the 0.5 percent increase we anticipated. Spending on goods was flat, though to some extent this reflects ongoing declines in goods prices, while total services spending rose by 0.5 percent. Our proxy for discretionary services spending rose by 0.5 percent in October, though almost all of this gain reflects higher prices. Inflation-adjusted consumer spending rose by 0.1 percent, setting the stage for a sharply slower rate of growth in Q4 than the 3.5 percent annualized growth seen in Q3, as we've anticipated would be the case.

The total **PCE Deflator** rose by 0.2 percent in October while the **core PCE Deflator** rose by 0.3 percent, yielding year-on-year increases of 2.3 percent and 2.8 percent, respectively, all as we and the consensus forecast anticipated. Core PCE inflation ticked higher after having been stuck at 2.7 percent the prior three months, and unflattering base effects will likely push both headline and core PCE inflation higher with the November and December data. Though few expect sustained acceleration in inflation in the months ahead, the lack of further deceleration will likely be sufficient to disrupt the degree to which the FOMC cuts the Fed funds rate and the pace at which they do so.

Real Growth Back In Line With Pre-Pandemic Trends



Core Inflation Proving To Be Frustratingly Stubborn



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