



US GDP (Q3 2024 – second estimate)

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Author: **Lydia Boussour**

US economy on solid foundation as policy winds shift

- Real GDP grew at an unrevised 2.8% annualized pace in Q3, following a strong 3.0% advance in Q2. The growth mix remained encouraging with domestic demand retaining solid momentum as evidenced by the 3.2% gain in final sales to private domestic purchasers (excluding net international trade and government spending).
- Consumer spending growth was revised slightly lower to a still robust 3.5% – the strongest performance since Q4 2023 – with the revisions driven by more moderate growth in durable and nondurable goods outlays.
- Business investment was upgraded to a 3.8% advance compared to 3.3% previously on a notable upward revision to growth in intellectual property investment, while structures investment was seen contracting at a slightly faster pace.
- Residential investment fell at an unrevised 5% annualized pace, the largest decline since Q4 2022 in a sign that the housing sector remains under pressure.
- The international trade figures were revised down a tad with the growth in imports continuing to outpace exports, yielding a 0.6 percentage point (ppt) drag on GDP growth.
- Government spending was still seen accelerating to a 5% annualized pace as federal outlays rose 8.9%, driven by a 13.9% advance in federal defense outlays.
- The first look at the income side of the economy showed that real gross domestic income (GDI) rose 2.2% in Q3 following a 2% advance in Q2. Gross domestic output (GDO) – the average of GDP and GDI – posted another 2.5% annualized advance, pointing to steady economic momentum. On a year-over-year (y/y) basis, real GDP cooled 0.3ppt to 2.7% y/y while real GDI advanced a robust 3.1% y/y and real GDO rose 2.9% y/y.
- Before-tax corporate profits fell marginally from their record high, down \$10.1b following a strong increase of \$132.4b in the prior quarter. As a result, profit margins narrowed 0.2ppt to 13% of GDP, a level that is elevated by historical standards.
- Looking ahead, solid income growth, pro-cyclical productivity growth and strong labor force participation should remain the key pillars of US exceptionalism even if GDP growth cools toward its trend pace. Stronger private sector confidence on the perception of pro-business policy developments and deregulation is likely to support spending and investment in the near term, but policy uncertainty and increased protectionism will likely act as offsetting constraints. We foresee real GDP growth averaging 2.7% in 2024 but easing to 2.0% in 2025 and 1.7% in 2026.



- On the inflation front, price pressures continued to ease in Q3 with headline inflation down 0.3ppt to 2.3% y/y – the lowest since Q1 2021 – and core personal consumption expenditures (PCE) inflation steady at 2.7% y/y – also the lowest since Q1 2021. We foresee headline and core PCE inflation around 2.5% and 2.8% in December, respectively.
- Given robust but gently decelerating economic activity, strong productivity growth and softening inflation, we continue to expect a 25 basis points (bps) rate cut to 4.25%-4.50% in December. Thereafter, we believe the Fed may decide to slow the recalibration process as policymakers more carefully feel their way to a neutral policy stance. Considering the elections results, we now assume a rate cut at every other meeting in 2025, for a total of 100bps of easing, down from 150bps previously. Notably, risks are tilted toward less monetary policy easing in 2025-26.

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Contacts



Gregory Daco

EY-Parthenon Chief Economist
Strategy and Transactions
Ernst & Young LLP



Lydia Boussour

EY-Parthenon Senior Economist
Strategy and Transactions
Ernst & Young LLP



Marko Jevtic

EY-Parthenon Senior Economist
Strategy and Transactions
Ernst & Young LLP



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