US Q3 GDP grows 2.8% led by 3.7% growth in consumer spending

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- US Q3 GDP posted 2.8% QoQ annualized growth, down from the 3.0% growth of Q2.
- Consumer spending was the strongest driver of growth as it accelerated 3.7% in Q3 from 2.8 % in Q2.
- Goods consumption increased by 6% in Q3 after 3% growth in Q2 while Services consumption growth was 2.6% after 2.7% in Q2.
- Final Sales to Domestic Purchasers (stripping out changes in inventories and net exports) was a very strong 3.6%, accelerating from 2.8% in Q2.
- Pricing data continues to moderate with the PCE price data showing 1.8% QoQ growth, down from 2.5% in Q2. Core PCE pricing fell to 2.2% from 2.8% in Q2.

US Q3 GDP growth moderated slightly to 2.8% QoQ annualized from 3% in Q2. But Personal Consumption was very strong, accelerating to 3.7% from 2.8% in Q2. The increase was mainly driven by Goods consumption growth of 6% QoQ following solid Q2 growth of 3%. Motor Vehicle and Parts increased the most within Goods, expanding by 9.8%, rebounding from negative growth during Q2 2023 to Q1 2024. Furnishings and Durable Household Equipment, and Recreational Goods posted strong growth as well for the quarter at 8.7% and 8.2% respectively.

Computers and Peripheral Equipment stood out this quarter, growing the most of any segment at 32.7%. The rise of AI has shifted investments into chips and datacenter related hardware driving growth in the segment which averaged 26.4% over the past four quarters, including this quarter. Transportation was also strong, growing by 25.9% after Q2 growth of 41.4%.

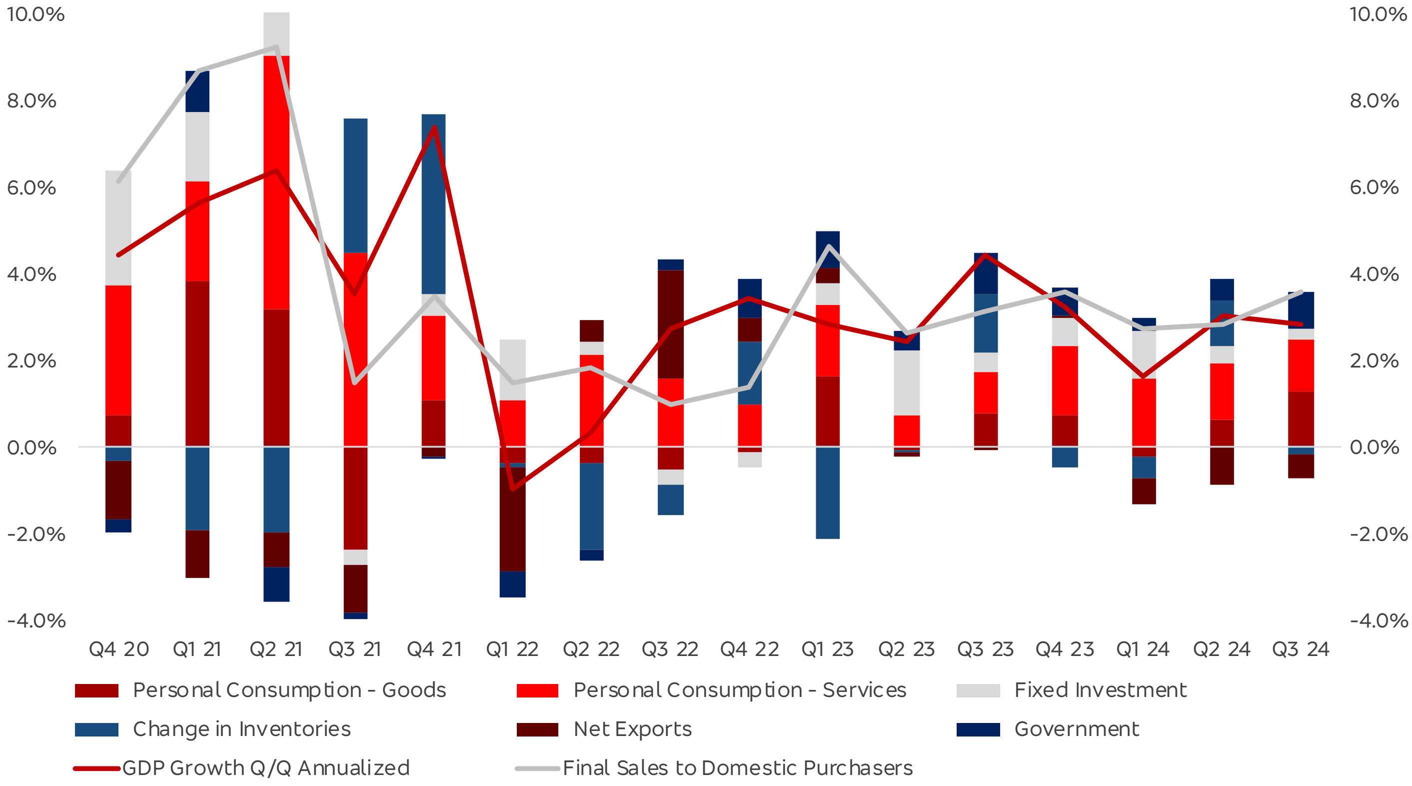
Residential Investments was one of the weakest segments during the quarter, contracting by 5.1% after a 2.8% contraction in Q2. Mortgage rates have stayed high as Treasury yields have increased, despite the Fed cutting rates by 0.50% in its September meeting and signaling a further 0.50% in cuts this year. Stronger economic data and the risks that whichever side wins in the upcoming elections could mean higher inflation, larger budget deficits and larger debt issuance have driven Treasury yields higher across all maturities. The high mortgage rates have led to continued weakness in the housing construction market.

Quarterly price data showed further moderation in PCE inflation. Overall prices increased by just 1.8% in the quarter, below expectations of 1.9% and a marked decrease from last quarter's level of 2.5%. Core PCE increased 2.2% from last quarter, nearing the Fed's target rate, though it was 0.1% higher than expected, it was down from 2.8% seen during Q2. The September PCE inflation will be released tomorrow so further details will be available. Expectations are for 2.1% YoY headline growth and 2.6% for Core PCE, the monthly pace is expected to pick up by 0.2% for overall prices while Core PCE is expected to increase 0.3% from August.

Both GDP and the pricing data point to an economy that is heading in the right direction. A recession scenario seems very unlikely, a "soft landing" scenario looks to be the downside case and a "no landing" scenario (continued growth or reacceleration) looks more likely now than it did before. The election will have large implications for the trajectory of GDP and prices and will influence the path for the economy given tax and tariff policies that may be implemented. A further rise in Treasury yields is possible depending on the outcome of the elections. We will reassess the implications for the economy and markets once the results of the elections are known next week.

GDP growth and contributions by major categories: Q3 GDP expands by 2.8%

(% Quarter-on-Quarter annualized)



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