

US Watch

Advance estimate 3Q US GDP: how long can this strength last?

3Q US GDP rises to robust 4.9% q/q saar

The advance estimate of 3Q US GDP showed the economy grew at a strong above trend pace of 4.9% q/q saar, the fastest since 2021. This was well above our and consensus expectations of 4.5% and represents an acceleration over 2Q growth of 2.1%. The US economy has now grown at a 2.0% or better quarterly annualized rate for the prior five quarters.

Incoming data continue to point to a robust US economy led by a resilient consumer on the back of a still tight labor market, higher than expected July 4 and Labor Day spending and strong balance sheets. Consumer spending came in strong at 4.0%, in line with expectations with the strongest category being durables (+7.6%). This is a positive sign as durables spending is largely discretionary. Services also came in at a robust 3.6%.

The rate sensitive sectors of the economy like housing showed signs of stabilizing. In line with our narrative, housing has likely found its bottom with residential investment posting its first positive print this year with 3.9% growth. Single family permits have been trending upwards, which is a good sign for 4Q though there are some headwinds on the horizon on the back of higher mortgage rates crunching affordability.

The big downside surprise was in the nonresidential investment print of -0.1% after 7.4% in 2Q, with structures growing only 1.6% and equipment down 3.8%. We flagged risks of a big slowdown in structures investment just yesterday in our [Capex watch](#), given unsustainable levels of investment growth. The level of structures investment remains elevated, buoyed by fiscal policy measures, but the growth rate is slowing. This is a sign that business investment might be levelling off in the coming quarters as the fiscal impulse weakens and higher rates becomes a larger headwind.

Additionally, inventories accumulated a strong \$80.6bn after coming in at \$14.9bn in 2Q, with a contribution of 1.3% this quarter after coming in flat in 2Q. We are likely to get payback in 4Q for this big buildup in 3Q.

Government spending increased to 4.6% largely on the back of federal defense spending (8.0%) though federal non-defense and state and local spending also posted modest ~4% prints. This is likely partially being driven by government employment which was up 3.0% annualized in 3Q and is used in the calculation of government consumption. The employment level is now just 4bp below Feb 2020 level so the rate of growth could slow in coming quarters. Within trade, both exports and imports posted an increase after negative 2Q prints, largely on the back of goods but with services also growing at a modest pace.

Final sales came in at a robust 3.5%. Core PCE inflation slowed down to a slightly lower than expected 2.4% from 3.7% while the GDP price index increased to 3.5% this quarter.

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BEA: Bureau of Economic Analysis

GDP: Gross Domestic Product

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Going into 4Q, higher than expected holiday spending might keep the US consumer going strong. Though there are headwinds on the horizon from tightening in financial conditions on the back of higher rates, a potential shutdown, rise in energy prices, a moderating labor market, business investment leveling off and a payback for 3Q inventory strength.

Fed Implications

In our view, the 3Q GDP print does not move the needle for the Fed. Final demand and core PCE inflation were both a bit softer than expected, so the case to tighten did not get any stronger. However, the Fed cannot close the door to rate hikes with growth still above trend and inflation still above target. So, policymakers will remain in "watch and see" mode.

Exhibit 1: BEA's advance estimate of 3Q US GDP

Strong growth on the back of a still resilient consumer, increase in non-residential investment spending and inventory accumulation

	Final Estimate 2Q		Advance Estimate 3Q	
	% q/q saar	Contribution to real GDP (pp)	% q/q saar	Contribution to real GDP (pp)
GDP	2.1		4.9	
Consumer Spending	0.8	0.6	4.0	2.7
Residential Investment	-2.2	-0.1	3.9	0.2
Structures	16.1	0.5	1.6	0.1
Equipment	7.7	0.4	-3.8	-0.2
Intellectual Property Products	2.7	0.2	2.6	0.1
Government	3.3	0.6	4.6	0.8
Exports	-9.3	-1.1	6.2	0.7
Imports	-7.6	1.1	5.7	-0.8
Net Exports (Bil 2012\$)	-928	0.0	-938	-0.1
Inventory Accumulation (Bil 2012\$)	14.9	0.0	80.6	1.3
Final Sales	2.1		3.5	
Domestic Final Sales	2.0		3.5	

Source: Haver Analytics, BEA

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