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US GDP Grows at Fastest Pace in 2 Years

News Summary

The US' real GDP grew at an annualized rate of 4.3% in Q3 of 2025, the strongest pace since late 2023, and an improvement from 3.8% in Q2. The upside was driven by robust consumer spending, firmer exports and solid government outlays, despite higher interest rates and lingering inflationary pressures.

Consumption rose at mid-3% annualized rate, with services and durable goods both contributing, whilst exports rebounded nearly 9% following weakness earlier in the year. This composition underlines domestic demand remains resilient even as real incomes and business sentiment surveys show uncertainty.

Market Reaction: dollar, yields and equities

Financial markets took the figures in stride, as data broadly matched or slightly beat expectations and after weeks of messaging from the Fed about a pause in rate hikes. Treasuries moved higher on the headline for growth but retraced as investors focused on signs that the pace is unlikely to sustain into 2026.

The dollar saw modest support against major peers, reflecting the relative strength of US growth compared to other advanced economies. US equity indices had a mixed reaction: cyclicals tied to domestic demand and AI-related capex outperformed, while rate-sensitive sectors showed more muted gains amid uncertainty over policy path.

Drivers of Growth

The leader of Q3 growth was consumer spending, which expanded around 3.5%, up from 2.5% in the previous quarter. Exports rose about 8.8% annualized, reversing earlier declines, supported by strong demand for capital goods and services, while imports fell, mechanically adding to GDP.

Government spending and AI-related investment provided additional support, with federal outlays and state and local expenditures contributing positively alongside a boom in capex tied to data centers and AI infrastructure.

Implications for the Fed

With the combination of strong real activity and still-elevated core PCE inflation, running close to 3% YoY, it complicates the Fed's case for rapid rat e cuts even though they have shifted from hiking to a data-dependent pause. Policymakers are likely to emphasize that while growth is robust, forward-looking indicators – such as slowing consumption in Q4 and softening labor-market data – points to moderation ahead.

Households, Firms, and Sustainability

For US households, stronger GDP growth reflects continued spending power for many consumers, but the benefits are unevenly distributed. Lower-income families face tighter credit conditions and higher borrowing costs of mortgages, auto loans and credit cards. The persistence of inflation above target means real wage gains remain modest for some groups, raising questions about how long consumption can outpace income growth.

US firms, particularly in services and AI-related manufacturing, have enjoyed solid demand and profits, encouraging ongoing investment. Yet higher interest costs are starting to weigh on highly leveraged companies and small businesses. Looking ahead, most forecasters expect growth to slow from the 4.3% pace as a cumulative impact of tighter monetary policy, waning fiscal support and softer global demand filters through the economy.