The Daily Dish

3rd Quarter GDP

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Yesterday the Bureau of Economic Analysis (BEA) released the initial estimate of gross domestic product (GDP) for the 3rd quarter of 2024. The data were interesting and, broadly, encouraging.

To begin, consider the mix of growth and inflation. Overall growth was 2.8 percent (at an annual rate), close to the 3.0 percent rate in the 2nd quarter. Meanwhile, inflation – as measured by the core (non-food, non-energy) personal consumption expenditure (PCE) price index – was only 2.2 percent, down from 2.8 percent in the 2nd quarter. Looking over a longer horizon, year-over-year growth was 2.7 percent, while core inflation matched that at 2.7 percent.

In short, it was a solid report approaching the desired mix of growth and 2.0 percent inflation.

Turn next to the composition of growth. Personal consumptions expenditures grew strongly at an annual rate of 3.7 percent (with durable goods rising sharply at 8.1 percent). As a result, personal consumption expenditures contributed 2.5 percentage points of the 2.8 percent top-line growth. This is out of proportion to the share of personal consumption expenditures (roughly two-thirds) in overall GDP. Had it been proportionate, it would have contributed 1.9 percentage points.

Similarly, government spending grew at an annual rate of 5.0 percent. Government spending is about 17 percent of GDP, so it would be expected to contribute only 0.5 percentage points of growth. It contributed 0.85 percentage points. The laggard is fixed investment, which would have been expected to contribute 0.5. percentage points as well but contributed only 0.24 percentage points due to the lackluster 1.3 percent growth. (Both residential and non-residential structures declined.)

In short, no cause for panic, but less than perfectly balanced growth in the 3rd quarter.

This report continues the theme of recent discussions on the economic outlook. The near-term outlook is quite solid and may yet achieve the soft-landing nirvana. But the outlook is clouded by policy risks: government funding battles, debt ceiling showdowns, tariffs, large deficits, and sunsets of the 2017 tax reform. Resolving those policy risks successfully will be the key to the next year's economic performance.