

## US consumers keep their feet on the gas

GDP growth came in at a robust 2.8% annualised rate, led by another big increase in consumer spending, strong business investment and firm government defence spending. A soft landing remains our view with growth set to slow to around 1.5% for full year 2025 as a cooling jobs market takes some of the steam out of the economy



The University of Michigan consumer sentiment survey could have some impact on FX today, especially when it comes to inflation expectations.

**2.8%** 3Q annualised GDP growth

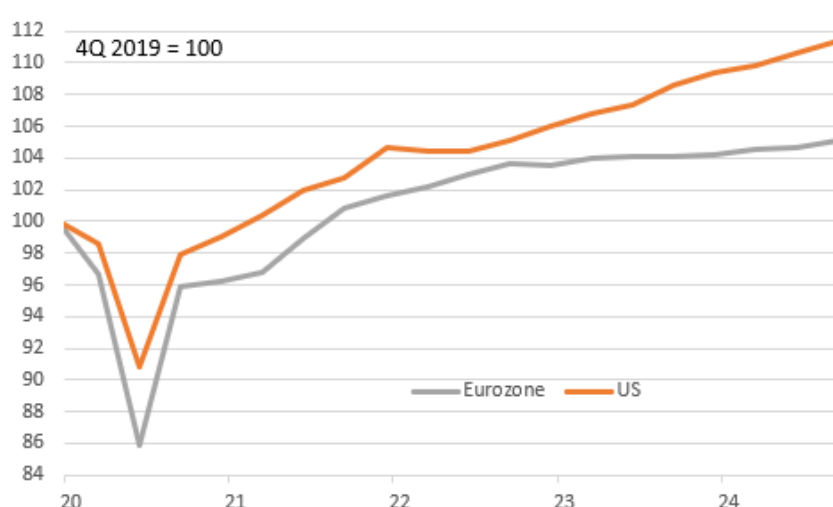
### Strong consumer spending leads to another strong GDP print

The US economy grew at a 2.8% annualised rate in the third quarter, a touch below the 2.9% consensus and the 3% rate recorded in the second quarter, but still a very strong outcome. Consumer spending was very robust, as expected based on monthly retail sales data, growing 3.7% and within that spending on goods grew 6%. Non-residential fixed investment was firm,

rising 3.3%, led by an 11.1% increase in equipment investment, but residential investment fell 5.1% as high mortgage rates and a general lack of affordability weighed on the sector.

Rounding out the numbers, government spending grew 5%, led by a 14.9% jump in national defence spending while net trade subtracted 0.56pp from headline growth (importers front running feared port strike action) while inventories subtracted 0.17pp. Overall, it is a strong set of growth numbers that compares very favourable with other major economies. We had eurozone GDP earlier today (0.4% quarter-on-quarter versus 0.2% consensus prediction – so roughly 1.6% annualised to be comparable to the US figure). Below is a chart of the levels of economic activity for the two economies since the start of the pandemic. The US economy is 11.4% larger than its pre-pandemic peak, while the eurozone economy is only 5.1% larger.

## US versus Eurozone GDP volumes versus 4Q 2019



Source: Macrobond, ING

## A soft landing narrative allows the Fed to cut rates further

We are currently forecasting GDP growth of 2.2% in the fourth quarter as the strong momentum in consumer spending continues to propel the US economy along nicely. However, a cooling jobs market will become more of a headwind with weaker business surveys suggesting a moderation in growth to around 1.5% for 2025 as a whole.

The inflation side of things was slightly worse than expected though. The core PCE deflator rose at a 2.2% annualised rate versus 2.1% that was expected (OK it was 2.16% to 2 decimal places so not a huge miss). This implies a month-on-month change in the monthly series tomorrow of 0.355% if there are no revisions to July or August's data. I suspect there will be and therefore it will round to 0.3% MoM tomorrow, in line with consensus. That is still running hot – we ideally need to see the MoM rate tracking at 0.17% MoM to deliver 2% year-on-year inflation over time. Nonetheless, this will still leave us looking for a 25bp rate cut from the Federal Reserve next week with a further 25bp likely in December as the Fed moves policy closer to neutral as it seeks to achieve the soft landing.

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