

## 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



Robust consumer spending helped US GDP to grow 2.8% annualised in the third quarter

**2.8%** 3Q annualised GDP growth

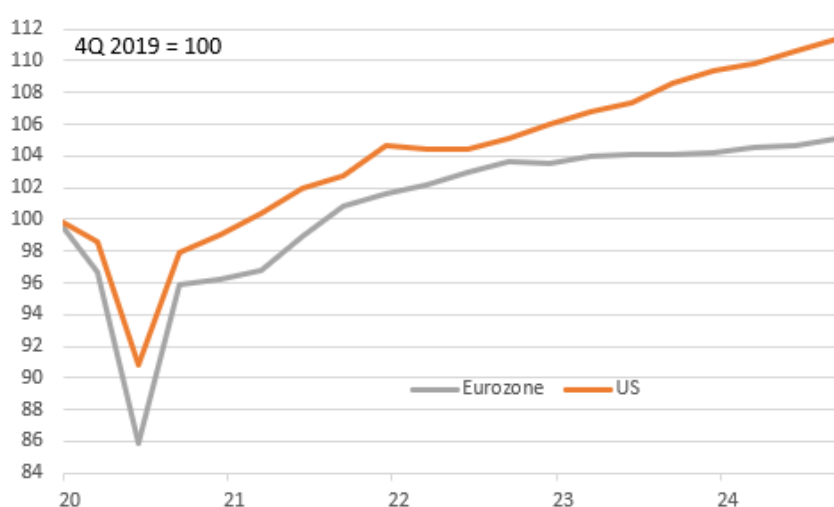
### Strong consumer spending leads to another strong GDP print

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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