US GDP surges 4.9% as consumers and government go large

The US economy expanded at 4.9% in 3Q with the government, households and home builders all contributing significantly and inventory rebuilding further boosting activity. However, the headwinds facing the economy and the household sector in particular are intensifying and we look for the pace of growth to slow to 1.5% in the final three months of the year

US GDP surged in the third quarter

4.9% 3Q annualised GDP growth

Stellar growth driven by consumer and government spending

US third quarter GDP grew at the fastest rate since 2021, clocking in at 4.9% annualised, led by rampant consumer and government spending. Household spending grew 4% with expenditure on durable goods (those lasting more than three years) looking particularly strong at 7.6%. Services were softer at 3.6%, but there is still broad strength here with Taylor Swift, Beyonce and Barbie all playing their part, selling out venues, boosting hotel occupancy and restaurant and bar spending wherever they went.

Residential investment was also robust, rising 3.9% after a long run of declines. The lack of supply of existing homes for sale has helped prices rebound this year and that in turn has stimulated construction activity once again. Non-residential fixed investment (basically business capex) was disappointing, coming in at -0.1%, but that is the only real downside surprise with net trade only subtracting -0.1% from headline growth.

Rounding out the contributions, government spending grew 4.6% annualised, led by an 8% increase in defence while inventories were built up quite significantly, contributing 1.3 percentage points of the 4.9% headline GDP growth.

Mounting challenges point to weaker growth in coming quarters

Unfortunately, we don't see this stellar growth rate being repeated in the fourth quarter of the year. The cumulative effects of Federal Reserve interest rate increases and reduced credit availability are showing signs of finally biting. Credit card borrowing costs are the highest since records began, car loan and personal loan rates are soaring while mortgage rates are up at 8%. At the same time, the sources of funds to spend are looking less supportive. Real household disposable income is flat lining, savings are being run down and consumer credit is starting to be paid back, with student loan repayments restarting. As such, we expect consumer spending to grow at a weaker pace in the fourth quarter with this decelerating trend continuing in 2024.

Home builder sentiment is also starting to sour, which weakens the outlook for residential construction as we head towards 2024 while that big surge in inventories seen in the third quarter may not come in as strongly in the fourth quarter.

It is obviously early days, but at this stage we see GDP growth coming in closer to 1.5% in the final three months of the year. Not terrible, but with those challenges facing the consumer sector likely intensifying, growth is set to be even weaker in 2024.

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