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Economic Research

Economic Briefing

# US economy clocks in another solid quarter

**The US economy grew by 2.8% in the third quarter of 2024, roughly in line with expectations. Private consumption and investment in equipment in particular increased. This continues the strong expansion of recent quarters. We see this as confirming our assessment that the US economy will not slide into a recession despite high key interest rates because overall financing conditions are still quite favorable.**

**Data:** In the third quarter, the US economy grew by 2.8% (this and all subsequent growth rates are annualized rates of change over the previous quarter). This is roughly in line with economists' expectations (3.0%).

**Details:** Growth was driven in particular by consumption and parts of corporate investment. Consumers spent 3.7% more. At the same time, investment in equipment (+11.1%) jumped. In addition, government spending (+5.0%), which was driven by a strong increase in defense spending, provided support.

By contrast, residential construction (-5.1%) and investment in structures (-4.0%) shrank again due to high interest rates. In the case of the latter, the momentum provided by various government funding programs, for example for the construction of semiconductor factories, is clearly weakening. In addition, a high vacancy rate for offices is depressing new construction.

Exports (+8.9%) and imports (+11.2%) also rose sharply. The latter reflects strong domestic demand on the one hand. On the other hand, many companies may have wanted to bring their goods to the US before the feared tariff increases.

**Interpretation:** The US economy continues to grow strongly. This applies in particular to private domestic final purchases (PDFP), i.e. gross domestic product excluding inventory investment, government spending and foreign trade. Federal Reserve Chairman Powell has emphasized this figure on several occasions because it provides a clearer signal of the trend in demand. In the third quarter, PDFP increased 3.2%. This is one of a series of six quarters with fairly stable and strong growth between 2.5% and 3.5% (black line in Chart 1). Although key interest rates are quite high, financing conditions in the overall economy remain favorable in view of record high equity prices and low risk premiums.

Today's figures confirm our assessment that the US economy should avoid a recession. That said, it is unlikely to be able to maintain the high pace of growth seen in recent quarters as the extremely high level of immigration, which also supported demand, is not likely to be repeated. Furthermore, the labor market is cooling on trend, which is why

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Dr. Christoph Balz <sup>AC</sup>

Bernd Weidensteiner <sup>AC</sup>

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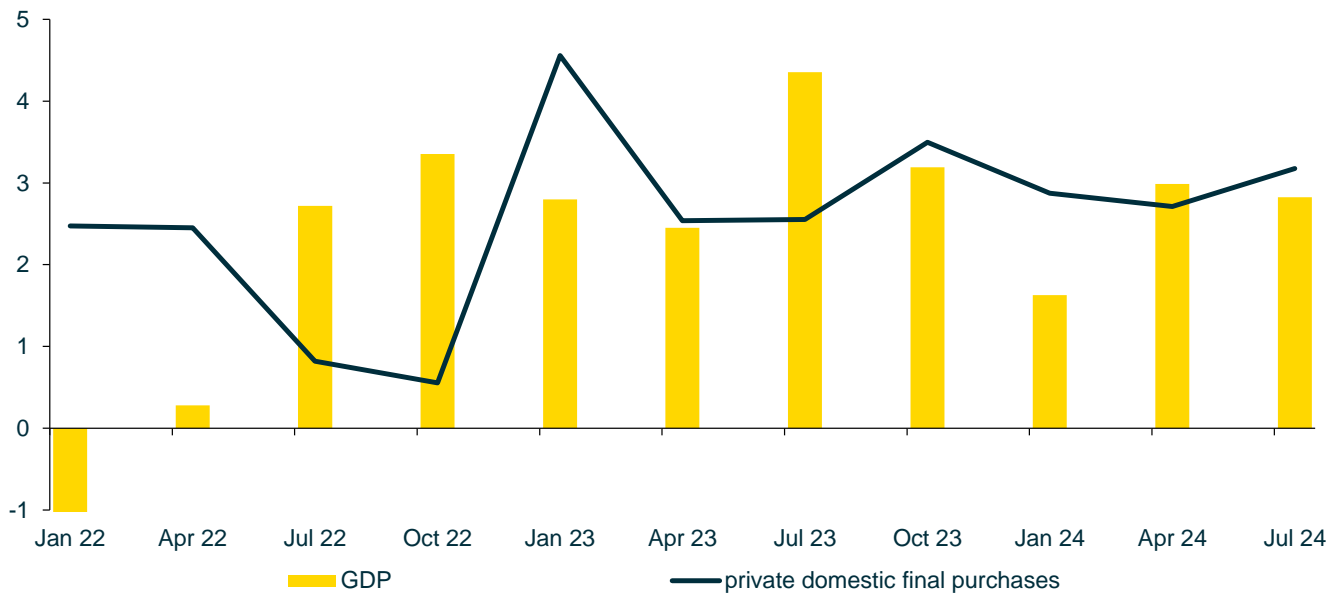
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private consumption should lose momentum. However, a more accurate outlook for 2025 will only be possible after the election.

**Chart 1 - Private domestic final purchases continue to grow strongly**

Gross domestic product (GDP), private domestic final purchases (GDP ex inventory investment, government spending and net exports). Real, quarter-on-quarter change, annual rate in %



Source: BEA, S&P Global, Commerzbank Research

**Fed: growth too strong - or still in line?**

Fed Governor Waller recently noted in a speech that the economy may not be cooling as much as desired. Today’s GDP figures are likely to provide further evidence of this. At least the fairly high growth in the third quarter - the usual estimates for the long-term sustainable growth rate are just under 2% - was accompanied by a subdued inflation. The GDP deflator, the broadest price index for the economy, rose by 1.8%. The deflator of personal consumption expenditures, which is the Fed’s preferred measure of inflation, rose by only 1.5% (and by 2.2% excluding food and energy). However, the pace of economic growth must slow in the medium



term. Otherwise, there is a growing risk of price pressures rising again. So far, the Fed is still counting on growth weakening and has therefore indicated further cautious rate cuts. We continue to expect a 25 basis point interest rate cut at next week's meeting.

**Table 1 - US Gross Domestic Product, real**

		2024Q3	2024Q2	2024Q1	2023Q4	2023	2022
GDP	qq	<b>2.8</b>	3.0	1.6	3.2		
	yy	<b>2.7</b>	3.0	2.9	3.2	2.9	2.5
Private consumption	qq/yy	<b>3.7</b>	2.8	1.9	3.5	2.5	3.0
Government purchases	qq/yy	<b>5.0</b>	3.1	1.8	3.6	3.9	-1.1
Non-residential investment	qq/yy	<b>3.3</b>	3.9	4.5	3.8	6.0	7.0
Residential investment	qq/yy	<b>-5.1</b>	-2.8	13.7	2.5	-8.3	-8.6
Domestic demand	qq/yy	<b>3.3</b>	3.8	2.2	3.0	2.3	2.8
Net exports *		<b>-0.6</b>	-0.9	-0.6	0.1	0.5	-0.4

Source: BEA, S&P Global, Commerzbank Research. qq/yy: change vs. previous quarter (annualized)/previous year in %.\* Contribution to GDP growth in percentage points.



## Analysts

**Dr. Christoph Balz** <sup>AC</sup>  
Senior Economist  
+49 69 9353 45592  
christoph.balz@commerzbank.com

**Bernd Weidensteiner** <sup>AC</sup>  
Senior Economist  
+49 69 9353 45625  
bernd.weidensteiner@commerzbank.com

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#### Commerzbank Offices

##### Frankfurt

Commerzbank AG  
DLZ - Gebäude 2,  
Händlerhaus  
Mainzer Landstraße 153  
60327 Frankfurt  
Tel: + 49 69 136 21200

##### London

Commerzbank AG  
PO BOX 52715  
30 Gresham Street  
London, EC2P 2XY  
Tel: + 44 207 623 8000

##### New York

Commerz Markets LLC  
225 Liberty Street, 32nd  
floor,  
New York,  
NY 10281-1050  
Tel: + 1 212 703 4000

##### Singapore

Commerzbank AG  
128 Beach Road  
#17-01 Guoco Midtown  
Singapore 189773  
Tel: +65 631 10000