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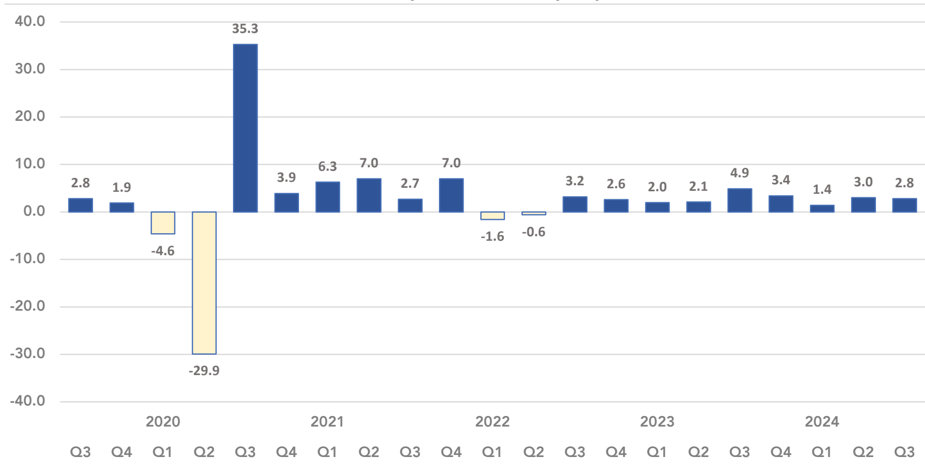
GDP GROWTH: TRENDING IN Q3 2024

The U.S. economy turned in another solid performance over the summer as healthy consumer and government spending caused the third-quarter gross domestic product to rise at an annual rate of 2.8%, the Commerce Department said.

"All this growth is happening with unemployment holding steady at a low near 4% and inflation moderating to the Fed's 2% target. It is hard to see the economy performing better," said Mark Zandi, Chief Economist at Moody's Analytics.

A group of economists polled just ahead of the government's GDP estimate believed the growth rate would match the 3% reached in the prior quarter. The small reduction reflected a widening trade deficit as businesses boosted imports to satisfy robust demand and while inventory accumulation was pared back.

Consumer spending, which accounts for more than two-thirds of economic activity, grew at a 3.7% pace. That was the fastest rate since the first quarter of 2023 and was up from the 2.8% pace notched in the second quarter. But the 5.1% drop in residential investment was a drag on growth. It was the second straight quarter that housing market activity fell and at a sharper rate than the 2.8% drop in Q2.



'It is hard to see the economy performing better' – Mark Zandi, Chief Economist, Moody's Analytics

Spending was boosted by outlays on both goods and services, including prescription medication, motor vehicles, doctor visits as well as dining out and hotel and motel stays. Consumption is being supported by a resilient labor market as well as a rise in household net worth, thanks to a stock market boom and higher house prices. Personal income increased $221.3 billion last quarter, down from $315.7 billion in Q2.

The Bureau of Economic Analysis said it was too soon to estimate the full impact of Hurricane Helene, which devastated large areas of the U.S. Southeast in September. Initial estimates pegged Helene's losses of privately owned fixed assets at $39 billion and $2 billion for government-owned fixed assets.

Although overall growth slowed slightly from its Q2 pace, by historical comparison it remained strong. In the last economic expansion from 2009 through 2019 GDP increased at an average annual rate of 2.5%. Current economic growth is also well above the pace economists see as the long-term trend. Fed officials put the U.S. economy's longer-run growth rate at 1.8%, according to projections released at their most recent meeting in September.

In a good sign for consumers' buying power, the economy grew faster than price tags did. The cost of living, as measured by Personal Consumption Expenditures, grew at a 1.5% annual rate in the third quarter, down from 2.5% in the second. The continued growth, especially the uptick in consumer spending and tame inflation, suggests the economy is running smoothly for the time being and that the Federal Reserve's efforts to subdue inflation while preserving the job market are going well. "Overall, the U.S. economy appears to be doing just fine," economist Paul Ashworth of Capital Economics told clients.

EMPLOYMENT: TRENDING IN Q3 2024

The U.S. economy added many more jobs than expected in September for the biggest job gain in six months. Nonfarm payrolls surged by 254,000, up from a revised 159,000 in August and greater than the 150,000 Dow Jones consensus forecast. The unemployment rate fell to 4.1%, down 0.1 percentage point.

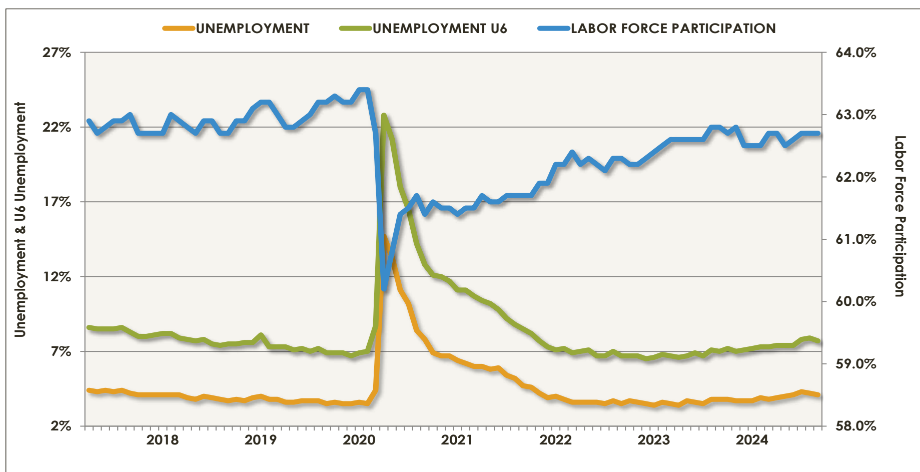
Along with upward revisions from previous months, the Labor Department's employment report for September eases concerns about the state of the labor market, which is likely to cause the Fed to be more moderate in any remaining interest rate cuts this year. August's job total was revised up by 17,000, while July saw a much larger addition of 55,000.

Strength in job creation spilled over to wages, as average hourly earnings increased 0.4% on the month and were up 4% from a year ago. Both figures were ahead of respective estimates.

The report comes amid questions on the labor market's strength and how it would influence the Fed's approach to lowering interest rates. Prior to the report, Fed Chairman Jerome Powell characterized the jobs picture as "solid" but said it has "clearly cooled" over the past year.

Following the report experts were upbeat. Jonathan Millar, a senior economist at Barclays told Reuters the Labor Department's report "reinforces the broad resilience theme for the U.S. economy and pushes aside

United States Unemployment



'We maintain our call for a 25-basis point cut in November' – Jonathan Millar, a senior economist at Barclays.

concerns of an imminent deterioration in labor market conditions," Millar said. "We maintain our call for a 25-basis point cut in November." Both the unemployment rate, at 4.1%, and the number of unemployed people, at 6.8 million, changed little in September. These measures are higher than a year earlier, when the jobless rate was 3.8%, and the number of unemployed was 6.3 million.

Restaurants and bars led job creation for the month with the hospitality industry adding 69,000 positions in September well above the average gain of 14,000 over the previous 12 months, the report noted. Health care filled 45,000 positions, while government added 31,000 jobs. Other gainers included 27,000 social assistance and 25,000 construction jobs.

A measure of unemployment that includes discouraged workers and those holding part-time jobs for economic reasons dropped to 7.7%. The share of the workforce either working or looking for work, known as the labor force participation rate, held steady at 62.7%.

The survey of household employment, which is used to calculate the unemployment rate, showed an even stronger picture, with a gain of 430,000 as the employment-to-population ratio increasing to 60.2%, an increase of 0.2 percentage point. Job creation tilted strongly to full-time positions, which were up 414,000, while those reporting part-time work fell by 95,000.

There have been scant signs of a stepped-up pace of layoffs, as new claims for unemployment benefits have held steady but hiring rates have cooled. Business surveys, including the Fed's own "Beige Book" summary of business conditions, indicate that companies are holding headcounts fairly steady.

MONETARY POLICY: TRENDING IN Q3 2024

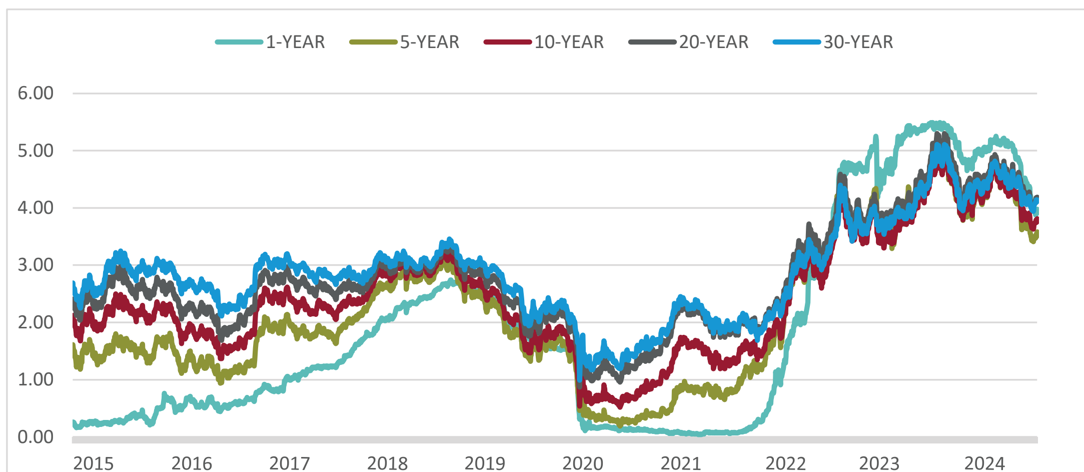
The Federal Reserve in September enacted its first interest rate cut since the early days of the Covid pandemic, trimming half a percentage point off benchmark rates in an effort to head off a labor market slowdown. But labor's surprising strength in October's jobs report makes it less likely the Fed will reduce rates more than 25 basis points at either of its remaining meetings this year slated for Nov. 6-7 and Dec. 17-18.

September's rate cut lowers the federal funds rate to a range between 4.75%-5%. While the rate sets short-term borrowing costs for banks, it affects many consumer products such as mortgages, car loans and credit cards.

Just a few weeks after the rate cut, there was an unexpectedly strong Labor Department report that showed there were 254,000 new hires in September – the most in six months. The Labor Department report also revised job gains in the previous two months by 72,000 added positions.

"The Committee has gained greater confidence that inflation is moving sustainably toward 2%, and judges that the risks to achieving its employment and inflation goals are roughly in balance," said the Fed Open Market Committee, which sets interest rate policy, in a statement following the meeting.

Daily Treasury Yield Curve Rates (Decade Trend)



"We're trying to achieve a situation where we restore price stability without the kind of painful increase in unemployment that has come sometimes with this inflation. That's what we're trying to do, and I think you could take the Committee's action as a sign of our strong commitment to achieve that goal," Fed Chair Jerome Powell said at a news conference following the decision.

FOMC officials raised their expected unemployment rate this year to 4.4%, from the 4% projection at the last update in June, and lowered the inflation outlook to 2.3% from 2.6%. On core inflation, the committee took down its projection to 2.6%, a 0.2 percentage point reduction from June.

Gross domestic product has been rising steadily, and the Atlanta Fed is tracking 3% growth in the third quarter based on continuing strength in consumer spending. Moreover, the Fed chose to cut even though most gauges indicate inflation well ahead of the central bank's 2% target. The Fed's preferred measure shows inflation running around 2.5%, well below its peak but still higher than policymakers would like.

"This is not the beginning of a series of 50 basis point cuts. The market was thinking to itself, if you go 50, another 50 has a high likelihood. But I think he [Powell] really dashed that idea to some extent," said Tom Porcelli, chief U.S. economist at PGIM Fixed Income. "It's not that he thinks that's not going to happen, it's that he's not pre-committing to that to happen. That is the right call."

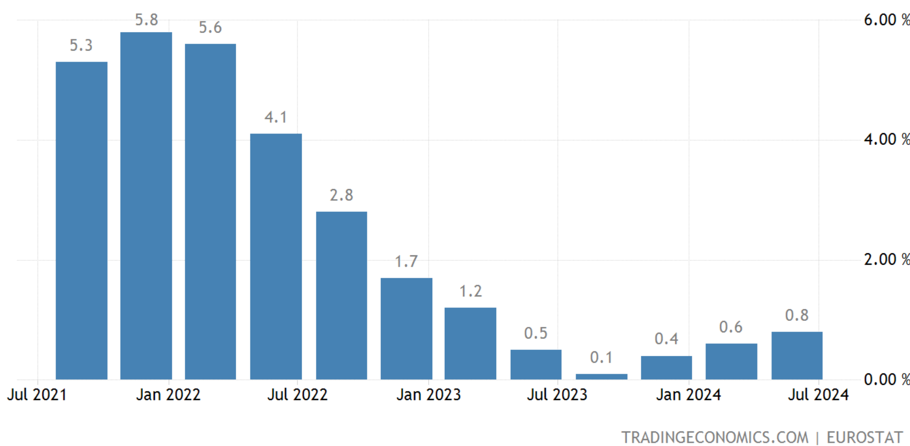
GLOBAL ECONOMY: TRENDING IN Q3 2024

In its latest economic forecast, the International Monetary Fund said that global growth is expected to total an "underwhelming" 3.2% in 2024 and 2025 and said that regional conflicts and protectionist policies remain the greatest threats to trade and commodity markets.

Although much of the IMF's World Economic Outlook was virtually unchanged from its two previous forecasts, notable revisions have occurred beneath the surface. There were upgrades in the forecast for the United States, offsetting downgrades for other advanced economies to include the largest European countries.

Likewise, in emerging market and developing economies, disruptions to production and shipping of commodities – especially oil – conflicts, civil unrest, and extreme weather events have led to downward revisions to the outlook for the Middle East, Central Asia and sub-Saharan Africa. These have been compensated for by upgrades to the forecast for emerging Asia, where surging demand for semiconductors and electronics, driven by significant investments in artificial intelligence, has bolstered growth. The latest forecast for global growth five years from now, 3.1%, remains mediocre compared with the pre-Covid average. The IMF said that persistent structural headwinds, such as population aging and weak productivity, are holding back potential growth in many economies.

European Union GDP Annual Growth Rate



Risks to the global outlook are tilted to the downside amid elevated policy uncertainty.

The IMF said that cyclical imbalances have eased since the beginning of the year, leading to a better alignment of economic activity with potential output in major economies. The adjustment is bringing inflation rates across countries closer together and generally has contributed to lower global inflation. Global headline inflation fell from an annual average of 6.7% in 2023 to 5.8% in 2024 and will hit 4.3% in 2025, according to the report, with advanced economies returning to their inflation targets sooner than emerging market and developing economies. As global disinflation continues to progress, the IMF cautioned that bumps on the road to price stability are still possible. Goods prices have stabilized, but price inflation in services remains elevated in many regions.

Risks to the global outlook are tilted to the downside amid elevated policy uncertainty. Sudden eruptions in financial market volatility could tighten financial conditions and weigh on investment and growth, the IMF said, especially in developing economies in which large near-term external financing needs may trigger capital outflows and debt distress. Further disruptions to the disinflation process, potentially triggered by spikes in commodity prices amid persistent geopolitical tensions, could prevent central banks from easing monetary policy, which would pose significant challenges to fiscal policy and financial stability.

Deeper or longer-than-expected contraction in China's property sector, especially if it leads to financial instability, could weaken consumer sentiment and generate negative global spillovers given China's large footprint in global trade, the IMF report said.

An intensification of protectionist policies would exacerbate trade tensions, reduce market efficiency, and further disrupt supply chains, the report said. Rising social tensions could prompt social unrest, hurting consumer and investor confidence and potentially delaying the passage and implementation of necessary structural reforms.

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