

Real GDP Growth in Q4 Unrevised at 2.3%

- On net real GDP growth was unrevised in the fourth quarter, at 2.3%.
- The U.S. economy grew 2.5% over the course of 2024, solid but slower than in 2023.
- There was an upward revision to inflation in the fourth quarter.
- PNC expects fed funds rate cuts in the middle of the year.

Real GDP growth in the fourth quarter of 2024 was unchanged at 2.3% at an annual rate, according to the second estimate from the Bureau of Economic Analysis. This was a slowing from growth of 3.1% in the third quarter and 3.0% in the second quarter, but was still a solid performance for the U.S. economy. On a year-over-year basis the U.S. economy expanded 2.5% in the fourth quarter, down from 3.2% over the same period in 2023, but still somewhat above the long-term trend.

Compared to the first estimate for the fourth quarter of 2024, there were upward revisions to government spending and exports, offset by downward revisions to consumer spending and investment. Even after the downward revision consumer spending growth was 4.2% annualized in the fourth quarter, the strongest pace since the first quarter of 2023. Consumer spending contributed 2.8 percentage points to annualized growth in the fourth quarter, with an especially large increase in spending on durable goods (up more than 12% annualized).

There was a modest upward revision to inflation in the second estimate. Personal consumption expenditures inflation was 2.4% annualized in the fourth quarter after revisions, compared to 2.3% in the advance estimate. PCE core inflation, excluding food and energy and the Federal Reserve's preferred inflation measure, was 2.7% in the second estimate, up from 2.5% in the advance estimate. This is above the central bank's 2% inflation objective.

Overall the second estimate for GDP in the fourth quarter held few surprises. The revisions to growth were minor, with a modest upward revision to inflation at the end of last year. This provides another reason for the Fed to be more measured in cutting the federal funds rate in 2025, on top of the potential inflationary impacts of higher tariffs and increased restrictions on immigration. PNC expects the Federal Open Market Committee to cut the federal funds rate by 25 basis points at both its May and July meetings this year, which would take the rate to a range of 3.75% to 4.00% in the second half of 2025 and into 2026. But risks to the forecast are the upside—the fed funds rate is more likely to be above this range at the end of this year than below it.

Normally the second estimate for GDP includes data on corporate profits. But for the fourth quarter, the BEA does not release profits data until the third estimate, which will come on March 27.

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