Third Quarter GDP Growth Accelerated, Underscoring the Economy's Resilience

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Headlines

- **Real GDP increased at an annualized 3.4% in the third quarter in the initial print – a notable improvement from 2.2% in the second quarter.**
- Investment, consumer spending, and government spending were the growth drivers, partially offset by a decrease in exports.
- Imports surged 19.7%, primarily reflecting the AI and data center construction buildout.
- The personal consumption expenditure (PCE) price index rose 2.1% in the third quarter, down sharply from 5.0% in the second quarter. The core PCE price index, excluding food and energy, slowed to 2.5% from 3.3% in the previous quarter.
- **PNC's baseline forecast is for real GDP growth to remain around 2.0% through the second half of next year.**
- PNC expects the Federal Open Market Committee (FOMC) to hike the fed funds rate by 25 basis points in December and March amid elevated inflation.

Details

The U.S. economy continues to be resilient despite numerous headwinds. Real GDP rose an annualized 3.4% according to the initial estimate from the BEA (Figure 1), up sharply from 2.2% in the second quarter. This was above PNC's forecast for an acceleration to 3.1%. Real GDP is up 2.8% from a year earlier, an improvement from 2.2% in the second quarter (Figure 2).

Consumer spending increased an annualized 3.8% in the third quarter (unchanged from the second quarter) and contributed 2.52% to third quarter growth with contributions of 1.89% from services spending (up from 1.57%) and 0.63% from goods spending (down from 0.94%). An acceleration in real disposable income growth in the third quarter and modest job gains supported the continued strong consumer spending growth.

Gross private domestic investment spending contributed 3.27% to third quarter growth, up sharply from 0.82% in the second quarter. Fixed investment spending contributed 1.66%, while non-residential spending subtracted 0.12%. Inventories

boosted growth by 1.61%, the largest contribution since the third quarter of 2021 (2.16%).

Within the non-residential fixed investment spending category, the three AI-related spending categories (information processing equipment, software, research & development) contributed 1.30% to growth, nearly double the contribution of 0.69% in the second quarter.

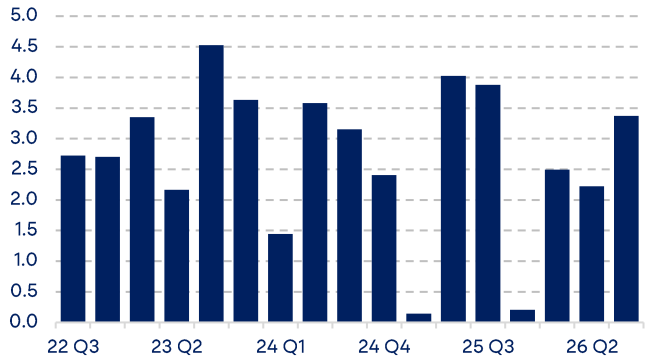
Government spending added 0.90% to third-quarter growth. Federal spending contributed 0.91%, while state and local government spending was virtually flat. Within the federal spending category, defense spending contributed 0.41% to growth while non-defense spending added 0.49%.

Net exports subtracted 3.32% from third quarter growth with imports subtracting 2.64% and exports subtracting 0.68%. Imports rose an annualized 19.7% in the third quarter while exports fell 5.7%. The surge in import growth was heavily concentrated in capital goods and tech infrastructure (computers, peripherals and information-processing equipment) to support the AI and data center buildout.

Final sales to private domestic purchasers – which excludes net exports, inventories and government spending and is a good measure of underlying demand – surged at a 4.9% annualized rate in the third quarter, up from the 4.6% pace in the second quarter.

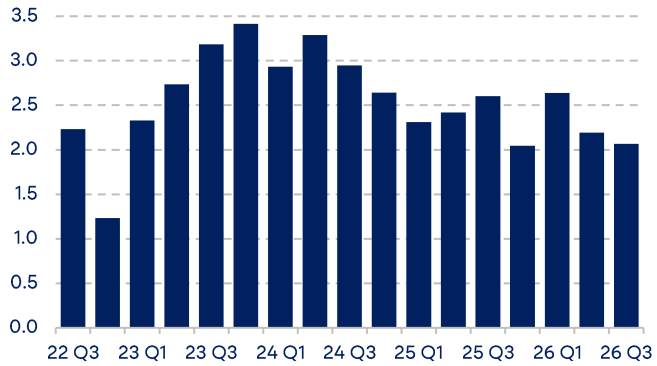
PNC's baseline forecast is for real GDP growth of around 2.0% through the second half of next year, primarily due to a slowdown in consumer spending and business fixed investment spending. Despite the slowdown in growth, PNC expects the FOMC to hike the fed funds rate by 25 basis points in December and March amid elevated inflation, putting the fed funds rate in a range of 4.25% to 4.50%.

Figure 1: Real GDP growth (% chg., q/q, SAAR)



Sources: BEA, PNC

Figure 2: Real GDP growth (% chg., y/y)



Sources: BEA, PNC

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