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US Q3 GDP: Proving its mettle once again

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Annualized Qtrly Chg.	23 Q3	23 Q2	23 Q1	22 Q4	22 Q3	22 Q2
Real GDP	4.9%	2.1%	2.2%	2.6%	2.7%	-0.6%
Personal consumption	4.0%	0.8%	3.8%	1.2%	1.6%	2.0%
• Goods	4.8%	0.5%	5.1%	0.0%	-0.7%	-0.3%
• Durable goods	7.6%	-0.3%	14.0%	-1.0%	0.9%	-0.9%
• Nondurable goods	3.3%	0.9%	0.5%	0.5%	-1.6%	0.0%
• Services	3.6%	1.0%	3.1%	1.8%	2.8%	3.2%
Gross private investment	8.4%	5.2%	-9.0%	3.4%	-7.6%	-10.6%
• Fixed investment	0.8%	5.2%	3.1%	-5.4%	-4.3%	-0.2%
• Nonresidential	-0.1%	7.4%	5.7%	1.7%	4.7%	5.3%
• Structures	1.6%	16.1%	30.3%	6.5%	-1.2%	-0.5%
• Equipment	-3.8%	7.7%	-4.1%	-5.0%	5.6%	5.0%
• Intellectual Property	2.6%	2.7%	3.8%	6.1%	7.0%	8.7%
• Residential	3.9%	-2.2%	-5.3%	-24.9%	-26.5%	-14.1%
Exports	6.2%	-9.3%	6.8%	-3.5%	16.2%	10.6%
• Goods	7.5%	-16.0%	12.0%	-6.3%	21.5%	9.2%
• Services	3.7%	6.3%	-3.5%	3.0%	5.0%	13.8%
Imports	5.7%	-7.6%	1.3%	-4.3%	-4.8%	4.1%
• Goods	5.9%	-6.5%	1.8%	-4.3%	-7.3%	2.1%
• Services	4.7%	-12.3%	-1.2%	-3.9%	8.1%	14.3%
Government	4.6%	3.3%	4.8%	5.3%	2.9%	-1.9%
• Federal	6.1%	1.1%	5.2%	9.8%	1.2%	-3.9%
• National defense	8.0%	2.3%	1.9%	7.7%	-0.3%	0.9%
• Nondefense	4.0%	-0.4%	9.4%	12.6%	3.3%	-9.8%
• State and local	3.7%	4.7%	4.6%	2.8%	3.8%	-0.8%

Source: Haver Analytics.

- Exceeding expectations and proving its mettle once again, today's 23Q3 US GDP report underscored the American economy's remarkable resilience in the face of restrictive monetary policy. Growth came in at an eye-popping 4.9%, above consensus expectations of 4.5%. The main driver of growth was the resurgence in US consumption, which increased 4.0% in the quarter compared to 0.8% in 23Q2. Non-residential investment was flat in the quarter after surging last quarter and residential investment grew by 3.9%, the first positive increase since 21Q1. Inventory accumulation added a massive 1.3 percentage points, flattering the headline growth number. As a result, final sales to domestic purchasers growth was more modest, coming in at 3.5%. Net exports contribution was close to zero in the quarter. Most of the key information in today's report was already known to the Fed based on the earlier released source data. We maintain our view that the resilience of the US economy won't fade on its on and further tightening of monetary policy will be needed to cool demand.

- The acceleration in consumption growth came on the back of a surge in both goods (4.8%) and services (3.6%). Durable goods consumption jumped by 7.6%, led by another surge in recreational goods and vehicles consumption which grew over 15%. Motor vehicle consumption increased by a modest 1.3% and the level remains well below its post-pandemic high. The growth in services spending was driven financial services and insurance and food services and accommodation.
- The pickup in consumption was financed out of savings, with the saving rate dropping sharply to 3.8% from 5.2% last quarter. In nominal terms, disposable personal income increased by 1.9% in the third quarter, following a robust 6.1% the previous quarter. But in real terms, disposable income contracted by 1.0%. The saving rate looks unsustainably low, and leaves little ammunition for spending from here now that credit card balances have recovered and excess savings have likely been depleted. That combined with a high share of spending on discretionary categories suggests a pullback in consumption next quarter.
- Business investment was flat in the quarter, posting growth of -0.1% in the quarter. The pullback in structures investment and equipment after strength in previous quarters was the main factor behind the weak investment number, with intellectual property products (IPP) growing at about the same pace as in 23Q2. Structures investment saw a pullback in oil and gas related structures while non-oil structures grew modestly. There was broad-based weakness across equipment categories, with a pullback in the volatile transportation sub-component. That will be a welcome sign for the Fed. Residential investment saw its first positive increase since 21Q1 with modest growth of 3.9%. However, the level of activity remains low and it should remain weak under the weight of restrictive monetary policy.
- Government spending was also strong in the quarter, growing by 4.6% with both federal and state and local government spending supporting growth. The pace of government spending has picked up since the middle of last year. The strength in state and local government spending likely reflects the large pandemic support they received and have yet to exhaust with employment levels still below their pre-pandemic benchmarks. There could be more support for government spending going forward as a result.
- Export growth rebounded but the level of exports remains essentially unchanged from since the middle of last year, reflecting weak external demand. Import growth surprised to the upside, with tracking data suggesting much weaker goods imports. Further resilience in consumption and the strength in the dollar could portend stronger import growth going forward.

Implications & actions

Re: Economic forecast — The surge in GDP was well anticipated given monthly consumption readings and this validates our call for a final 25bp hike from the Fed in December, assuming that data flow continue to show a resilient consumer and continued strength in the labour market. We still see the potential for a weak GDP growth in early 2024, as consumption pulls back with saving behaviour normalizing and headwinds from other idiosyncratic forces such as student loan repayments, the UAW shutdown and another risk of a government shutdown.

Re: Markets —Bond yields dropped while the USD strengthened after the upside surprise in the GDP data.

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