Economic Update

December 19, 2024

Modest Upward Revision to GDP Growth in Q3; Economy Is Strong at the End of 2024

- **Real GDP growth in the third quarter was revised higher to 3.1% in the third estimate, from 2.8%. Growth over the past year was 2.7%.**
- **There was a downward revision to growth in real domestic income, to 2.0% from 2.1%.**
- **The economy is strong at the end of 2024.**
- **Core inflation was revised modestly higher in the third quarter. Inflation is slowing, but remains above the Fed's objective.**
- **Growth will slow in 2025 but remain solid; there are large upside and downside risks.**
- **PNC expects two fed funds rate cuts in 2025.**

Real GDP growth was revised modestly higher in the third estimate from the Bureau of Economic Analysis, to 3.1% at an annualized rate; reported growth was 2.8% in the advance and second estimates. Real GDP growth in the second quarter was 3.0% annualized. Growth has been 3% or higher in three of the last four quarters, and 2.4% or higher in eight of the last nine quarters, a remarkable run. On a year-over-year basis inflation-adjusted economic growth in the third quarter was a strong 2.7%.

Compared to the second estimate, there were upward revisions to exports and consumer spending, partially offset by a downward revision to investment in inventories.

There was a modest downward revision to real gross domestic income in the third quarter, to 2.0% annualized, from 2.1%. Gross domestic income is an alternative measure of the size of the economy based on income going to households and businesses from economic activity. Over the past year real gross domestic income has increased 3.0%.

Annualized inflation measured using the core personal consumption expenditures price index was revised slightly higher in the third quarter to 2.2% annualized, from 2.1% in the second estimate. On a year-over-year basis core PCE inflation was 2.7%, unchanged from the second quarter and above the Federal Reserve's 2% objective. The core PCE price index is the central bank's preferred inflation measure and excludes volatile food and energy prices.

Consumer spending, government, and business fixed investment were the major drivers of economic growth in the third quarter. Trade, inventories, and housing investment were drags.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

The third estimate for GDP in the third quarter is further proof that the U.S. economy remains strong in the second half of 2024, but that inflation, while slowing, is still too high for the Federal Reserve. There was a modest upward revision to GDP growth, but a modest downward revision to growth in gross domestic income. Over the past year both measures are up around 3%, above the economy's long-term potential. Core inflation was revised slightly higher in the third quarter. Although it is slowing, and the third quarter annualized number was close to the Fed's 2% objective, over the past year core prices are up almost 3%. Inflation is set to slow further in the near term, but the Federal Open Market Committee signaled yesterday that it will be more cautious in easing monetary policy until it sees more progress on inflation. The Bureau of Economic Analysis will release data on PCE inflation in November tomorrow.

Overall PCE inflation was 1.5% annualized in the third quarter, unrevised, and 2.3% on a year-ago basis.

PNC expects real GDP growth of around 2% in the fourth quarter, coming from slower growth in consumer and government spending. Still, the economic fundamentals remain strong, and there are no indications of recession. Growth in 2025 will be around 2%, with an increase in business investment, slower but still-moderate growth in consumer spending, and less support from government. PNC expects the FOMC to cut the fed funds rate by 25 basis points two times in 2025, in March and June, bringing the fed funds rate to a range of 3.75% to 4.00% by the middle of the year.

Risks to the outlook have increased since the election, both to the upside and the downside. Tax cuts and reduced regulation could support stronger growth next year, but tariffs and a potential trade war would be drags. Tariffs that lead to higher inflation could cause the FOMC to hold off on rate cuts, weighing on economic growth. Over the longer run significant restrictions on immigration would result in slower economic growth.

PNC Economics
economics@pnc.com

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