

- **Real GDP grew 2.3% in the fourth quarter and was up 2.5% from a year earlier.**
- **Growth slowed in 2024 but remained solid.**
- **Consumer spending led GDP growth in the fourth quarter, with drags from inventories and business fixed investment.**
- **Real GDP growth should be around 2% in 2025.**

Real GDP increased 2.3% at an annualized rate in the fourth quarter of 2024, according to the advance report from the Bureau of Economic Analysis. This was a slowing from 3.1% growth in the third quarter but was still solid.

On a year-over-year basis growth was 2.5% in the fourth quarter, down from 3.2% in 2023, but still above the economy's long-term potential.

Consumer spending growth was very strong in the fourth quarter, up 4.2% annualized after adjusting for inflation, adding 2.8 percentage points to annualized growth. This was the largest increase in consumer spending since the first quarter of 2023. There was an especially large 12% increase in durable goods spending over the quarter but spending also increased for nondurable goods and services.

Business fixed investment fell 2.2% in the fourth quarter, subtracting 0.3 percentage point from growth. This was the first decline in business fixed investment in two years. There were declines in business investment in equipment and structures, while investment in intellectual property products rose. Residential investment (investment in housing) rose more than 5% in the fourth quarter, adding 0.2 percentage point to growth.

Trade was essentially neutral for growth in the fourth quarter, with exports and imports both down slightly.

Inventories were a significant drag in the fourth quarter, subtracting 0.9 percentage point from growth. Final sales of domestic product—GDP minus the change in inventories, which measures demand in the U.S. economy—grew a substantial 5.5% in the fourth quarter, the best performance in more than a year.

Government spending rose 2.5% annualized in the fourth quarter, with increases at the federal and state and local levels. Overall, government added 0.4 percentage point to growth.

The U.S. economy is in excellent shape entering 2025. GDP growth was solid in 2024, somewhat softer than in 2023, but still above the economy's long-run potential. Most of the slowing in growth in the fourth quarter was from inventories, so demand was strong, and the need to increase inventories should be a support to growth this year. Consumer spending growth cannot continue at the rapid pace of the fourth quarter but should remain good with the strong labor market and solid household fundamentals. There was a decline in business fixed investment in the fourth quarter, perhaps due to uncertainty about the political environment, but it should rebound as businesses look to make investments to meet long-term demand and the Federal Reserve continues to lower short-term interest rates.

PNC expects a bit slower GDP growth in 2025. Consumer spending growth will slow to a pace more consistent with income growth, and government will provide less support than over the past two years. Business investment will rebound as monetary easing supports borrowing. Housing should benefit from lower mortgage rates. PNC expects real GDP growth of around 2% this year, close to the economy's long-term potential.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 3/19/25)	4.38-4.38%	4.38%	4.38%	4.38%. The Federal Open Market Committee will leave rates unchanged in March.
Jan ISM (2/3, Monday)	48.7-52.4	49.7	49.2 (Dec)	49.0. Manufacturing activity to remain in contraction territory in January.
Dec Construction Spending (2/3, Monday)	0.0-0.8%	0.3%	0.0% (Nov)	0.3%. Construction activity to accelerate slightly in December.
Dec Factory Orders (2/4, Tuesday)	-1.1 to 0.7%	-0.8%	-0.4% (Nov)	-0.8%. Factory orders to decline again in December as the factory sector continues to struggle amid high interest rates.
Jan ADP Employment Survey (2/5, Wednesday)	110-200K	142K	122K (Dec)	155K. Private sector jobs gains to pick up in January.
Dec Trade Balance (2/5, Wednesday)	-\$99.0 to -\$79.2B	-\$96.3B	-\$78.2B (Nov)	-\$90.2B. The trade deficit to widen in December amid solid consumer spending growth.
Jan ISM-NMI (2/5, Wednesday)	52.8-56.5	54.2	54.0 (Dec)	53.5. Service sector activity to moderate slightly in January but remain in expansion territory.
Q4 Nonfarm Productivity (Prelim) (2/6, Thursday)	0.8-2.0%	1.8%	2.2% (Q3)	2.0%. Nonfarm productivity to decelerate in Q4 but remain solid.
Q4 Unit Labor Costs (Prelim) (2/6, Thursday)	1.3-4.2%	3.3%	0.8% (Q3)	2.2%. Unit labor costs to accelerate in Q4 amid an upturn in job growth in the final two months of the quarter.
Initial Claims, Week of 2/1/25 (2/6, Thursday)	210-220K	214K	207K (1/25/25)	215K. Initial jobless claims to rise in the week ending 2/1 but remain historically low.
Jan Nonfarm Payrolls (2/7, Friday)	130-225K	165K	256K (Dec)	170K. Nonfarm payrolls gains to moderate sharply in January but remain solid.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Jan Private Nonfarm Payrolls (2/7, Friday)	112-205K	149K	223K (Dec)	145K. Private payrolls gains to slow sharply in January but remain strong.
Jan Manufacturing Payrolls (2/7, Friday)	-20 to 6K	0K	-13K (Dec)	-2K. Manufacturing employment to fall again in January amid continued weakness in the interest rate sensitive sector.
Jan Unemployment Rate (2/7, Friday)	4.1-4.2%	4.1%	4.1% (Dec)	4.1%. Unemployment rate unchanged in January amid solid employment gains.
Jan Average Hourly Earnings (2/7, Friday)	0.3-0.4%	0.3%	0.3% (Dec)	0.3%. Average hourly earnings growth in January to remain on par with December's modest gain.
Jan Hours Worked (2/7, Friday)	34.2-34.3hrs	34.3hrs	34.3hrs (Dec)	34.3. Average workweek unchanged in January.
Feb U. Mich. Consumer Sentiment (prelim) (2/7, Friday)	69.5-72.8	71.5	71.1 (Jan)	72.8. Consumer sentiment to improve slightly in February amid solid job gains and rising equity prices.
Dec Consumer Credit (2/7, Friday)	\$7.2-\$20.0B	\$13.3B	-\$7.5B (Nov)	\$18.0B. Consumer credit growth to accelerate amid a solid holiday season.

Monthly Calendar of Economic Data: February 2025

Feb 3

ISM Manufacturing Index	
Nov	48.4
Dec	49.2
Jan	

Construction Spending	
Oct	0.5
Nov	0.0
Dec	

	Autos		Light	
	Dom	For	Truck	Total
Nov	1.9	1.1	13.7	16.7
Dec	1.9	1.1	13.8	16.8
Jan				

Feb 4

Manufacturers'			
	Ship	Inv	Orders
Oct	-0.2	-0.1	0.5
Nov	0.1	0.3	-0.4
Dec			

Feb 5

Trade Balance (\$B)	
Oct	-\$73.6
Nov	-\$78.2
Dec	

ISM Non-Manufacturers Index	
Nov	52.1
Dec	54.0
Jan	

Jan ADP Employment Survey

Feb 6

Unemployment Claims (000)				
Oct	Nov	Dec	Jan	Feb
260	221	242	203	
242	219	220	217	
228	215	220	223	
218	215	211	207	
	225			

Nonfarm Productivity & Costs (Q4 Prelim)		
	Productivity	Unit Labor Costs
Q4'23	3.1	0.9
Q1'24	0.7	8.5
Q2'24	2.1	-1.1
Q3'24	2.2	0.8
Q4'24(p)		

Feb 7

	U. Rate	Jobs (000)
Nov	4.2	+212
Dec	4.1	+256
Jan		

Consumer Credit (\$B)	
Oct	\$17.3
Nov	-\$7.5
Dec	

Feb U. Mich. Consumer Sentiment (prelim)

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