Economic Update

August 29, 2024

Upward Revision to GDP Growth in Second Quarter with Downward Revision to Inflation; Profits Rebound to Record High

- **Real GDP growth in the second quarter was revised higher to 3.0%, from 2.8%.**
- **Both overall and core PCE inflation were revised lower in the second quarter.**
- **Corporate profits rose in the second quarter and hit a record high.**
- **Gross domestic income growth was 1.3% in the second quarter and has been running behind GDP growth for a couple of years.**
- **U.S. growth will slow in the near term, but there will not be a recession. Growth should pick up in 2025 with looser monetary policy.**

Real GDP was revised somewhat in the second estimate for the second quarter according to the Bureau of Economic Analysis, to 3.0% at an annualized rate, from 2.8% in the advance estimate. There was an upward revision to consumer spending in the second quarter, somewhat offset by downward revisions to business fixed investment, investment in inventories, government spending, investment in housing, and an upward revision to imports (higher imports reduce GDP).

There was also a downward revision to inflation in the second quarter. The core personal consumption expenditures price index, the Federal Reserve's preferred inflation measure which excludes volatile food and energy prices, rose 2.8% at an annualized rate in the second quarter after revisions, compared to 2.9% in the advance estimate. There was also a downward revision to total PCE inflation, to 2.5% from 2.6% in the advance estimate. On a year-ago basis both overall core and PCE inflation were 2.6% in the second quarter; overall inflation was unchanged from the first quarter, but core inflation (more important for the Fed) slowed from 2.9% in the first quarter, and a peak of 5.5% in the first quarter of 2022. Inflation continues to ease toward the central bank's 2% objective.

Corporate profits rose by $58 billion to $3.425 trillion (annualized, not adjusted for inflation) in the second quarter, a new record high. This was an increase of 1.7% unannualized. Domestic profits rose by $76 billion, with $46 billion of that from the domestic financial industry; profits from abroad fell by $18 billion in the second quarter. Profits fell by $47 billion in the first quarter.

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Real gross domestic income—an alternative measure of the size of the economy, the income of households and businesses from economic activity adjusted for inflation—increased 1.3% at an annualized rate in the second quarter. This was the same pace of growth as in the first quarter. Real GDP and real gross domestic income should be equal in theory, but diverge because they are calculated from different sources. GDP growth has been running ahead of gross domestic growth for the past couple of years, suggesting that GDP may be somewhat overstating economic growth.

On a year-ago basis real GDP growth was 3.1%, with gross domestic income growth of 2.0%.

The U.S. economic expansion continues even as inflation slows. Real GDP growth was solid in the second quarter, and looks even better with an upward revision. Real GDP growth has been above 2% in seven of the last eight quarters, and 3% or higher in three of the last four quarters. Gross domestic income growth has been weaker, but still solid. Final sales of domestic product—GDP minus the change in inventories, which is domestic and foreign demand for U.S.-produced goods and services—was up a decent 2.2% annualized in the second quarter, and a very good 2.9% on a year-over-year basis. Consumers continue to spend with the strong labor market, businesses are investing, and government spending is rising thanks to the Inflation Reduction Act, the CHIPS and Science Act, and the Infrastructure Investment and Jobs Act. Trade has been a drag on growth in 2024 as strong domestic demand is leading to higher imports. And corporate profits rebounded in the second quarter to hit a record high.

PNC’s forecast is for slower growth over the next few quarters, but no recession. High interest rates because of tight monetary policy remain a drag, and a softening labor market and weaker income growth will lead to slower growth in consumer spending. But the fundamentals are still solid, and the labor market is good, just not as good as it was in 2023. Economic growth should pick up next year as the Federal Reserve cuts the fed funds rate multiple times in the months ahead, starting at its meeting in mid-September, in response to easing inflation and the softening job market.

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