

More Solid GDP Growth to Close out 2024; Economy Expanded 2.5% Last Year

- **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

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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.

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