First Trust Portfolios Canada®
Monday Morning **OUTLOOK**

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October 21, 2024

GDP Growth Still Solid

With third quarter GDP being reported next Wednesday – less than a week before election day – the US is still not in recession.

Yes, monetary policy has been tight, but the lags between tighter money and the economy are long and variable. In addition, massive budget deficits continue to provide incomes for a wide range of occupations. The official figures for Fiscal Year 2024 arrived Friday afternoon (isn't it just like the government to announce bad news right before the weekend!) and the deficit was $1.832 trillion, or what we estimate to be 6.4% of GDP. That's the second straight year with a deficit in excess of 6.0% of GDP, in spite of an unemployment rate averaging less than 4.0%. These deficits, which are unprecedented in size given peacetime and low unemployment, may have temporarily masked the effects of tighter money.

Meanwhile, innovators and entrepreneurs in high-tech industries and elsewhere have been overcoming government obstacles to push the economy forward. It's hard to tell how much each factor (government spending or innovation) deserves credit for recent GDP growth, but roughly half of job creation in the past year has been in government and healthcare.

In the meantime, we estimate that Real GDP expanded at a 3.0% annual rate in the third quarter, mostly accounted for by growth in consumer spending. (This estimate is not yet set in stone; reports on Friday about durable goods and next Tuesday about international trade and inventories might lead to an adjustment.)

Consumption: In spite of tepid auto sales, overall consumer spending continues to rise, possibly because of continued government deficits. We estimate that real consumer spending on goods and services, combined, increased at a 3.5% rate, adding 2.4 points to the real GDP growth rate (3.5 times the consumption share of GDP, which is 68%, equals 2.4).

Business Investment: We estimate a 1.7% growth rate for business investment, with gains in intellectual property leading the way, while commercial construction declined slightly. A 1.7% growth rate would add 0.2 points to real GDP growth. (1.7 times the 14% business investment share of GDP equals 0.2).

Home Building: Residential construction dropped in the third quarter, hampered by the lingering pain from higher mortgage rates as well as local obstacles to construction. Home building looks like it contracted at a 5.0% rate, which would subtract 0.2 points from real GDP growth. (-5.0 times the 4% residential construction share of GDP equals -0.2).

Government: Only direct government purchases of goods and services (not transfer payments) count when calculating GDP. We estimate these purchases were up at a 1.8% rate in Q3, which would add 0.3 points to the GDP growth rate (1.8 times the 17% government purchase share of GDP equals 0.3).

Trade: Looks like the trade deficit shrank slightly in Q3, as exports and imports both grew but exports grew faster. We're projecting net exports will add 0.2 points to real GDP growth.

Inventories: Inventory accumulation looks like it was slightly faster in Q3 than Q2, translating into what we estimate will be a 0.1 point addition to the growth rate of real GDP.

Add it all up, and we get a 3.0% annual real GDP growth rate for the third quarter. Not a recession yet, but that doesn't mean that the US economy is out of the woods.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-23 / 9:00 am	Existing Home Sales – Sep	3.890 Mil	**3.840 Mil**		3.860 Mil
10-24 / 7:30 am	Initial Claims – Oct 19	242K	**235K**		241K
9:00 am	New Home Sales – Sep	0.720 Mil	**0.716 Mil**		0.716 Mil
10-25 / 7:30 am	Durable Goods – Sep	-1.0%	**-5.0%**		0.0%
7:30 am	Durable Goods (Ex-Trans) – Sep	-0.1%	**0.0%**		+0.5%