

US economy expands 4.3% in Sep qtr, fastest in 2 years

BLOOMBERG
23 December

The US economy expanded in the third quarter at the fastest pace in two years, bolstered by resilient consumer and business spending and calmer trade policies.

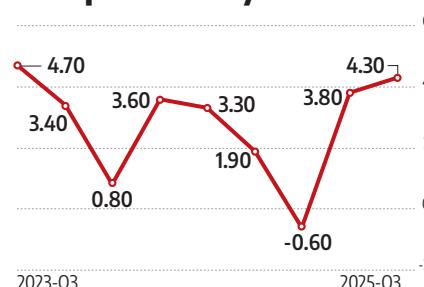
Inflation-adjusted gross domestic product, which measures the value of goods and services produced in the US, increased at a 4.3 per cent annualised pace, a Bureau of Economic Analysis report showed Tuesday. That was higher than all but one estimate in a Bloomberg survey and followed 3.8 per cent growth in the prior period.

The BEA was originally due to publish an advance estimate of GDP on October 30 but the report was cancelled due to the government shutdown. The agency typically releases three estimates of quarterly growth — fine-tuning its projections as more data comes in — but it will only release two for the period leading up to the longest shutdown on record. The delayed report card shows the economy maintained momentum through the middle of the year as consumers powered ahead and the most punitive of President Donald Trump's tariffs were rolled back. While the shutdown is expected to weigh on fourth-quarter growth, economists expect a modest rebound in 2026 when households receive tax refunds and an anticipated Supreme Court ruling may strike down Trump's sweeping global tariffs.

The Federal Reserve's latest projections echo that sentiment, with Chair Jerome Powell citing supportive fiscal policy, spending on AI data centers and continued household consumption as reasons for the central



Sharp recovery US GDP (Q-o-Q in%)



Source: Bloomberg; Compiled by BS Research Bureau

bank's forecast for faster growth next year. Policymakers are projecting just one interest-rate cut in 2026 after three straight reductions to end this year.

Part of the reason for some officials' hesitation to lower borrowing costs much more is because inflation remains above their 2 per cent target. The report showed the Fed's preferred inflation metric — the personal consumption expenditures price index, excluding food and energy — rose 2.9 per cent in the third quarter. Consumer spending —

the main growth engine of the economy — advanced at a 3.5 per cent annualised pace. That reflected solid outlays on services, including health care and international travel.

However, a softer labour market and high cost of living represent hurdles for the consumer in 2026. That combination has created a more notable divide in household spending by income. Business investment expanded at a 2.8 per cent rate, driven by another strong quarter for outlays on computer equipment. Investment in data centers, which house the infrastructure for AI, climbed to a fresh record. Net exports added about 1.6 percentage points to GDP growth after seesawing in the first half of the year. Goods and services that aren't produced in the US are deducted from the GDP calculation but counted when consumed. Inventories and residential investment both weighed on growth in the third quarter. Because swings in trade and inventories have distorted overall GDP this year, economists are paying closer attention to final sales to private domestic purchasers, a narrower metric of consumer demand and business investment. This measure climbed 3 per cent, the most in a year.

The government's other main gauge of economic activity — gross domestic income — rose 2.4 per cent after a revised 2.6 per cent annualised advance in the second quarter. Whereas GDP measures spending on goods and services, GDI measures income generated and costs incurred from producing those same goods and services.

The report includes fresh figures on corporate profits, which rose 4.2 per cent in the third quarter, the most this year.