Office of the Comptroller of the Currency

U.S. ECONOMIC SNAPSHOT

August 2024

Economy beat expectations in 2Q, but growth is likely to slow

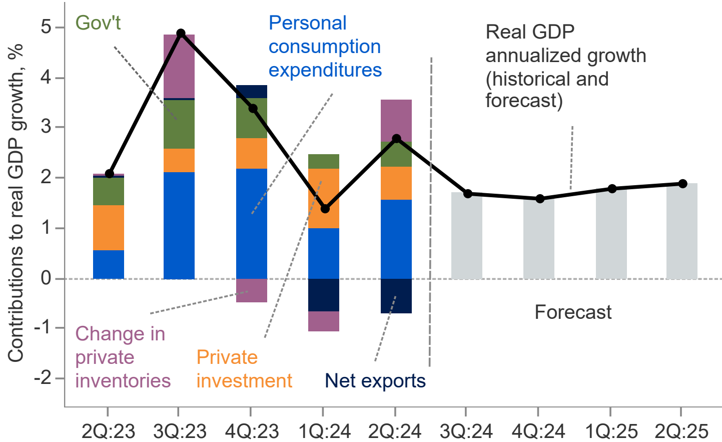
• **Real GDP grew 2.8 percent in 2Q:2024, well above the 1.4 percent pace set in 1Q.** The acceleration largely reflected inventory building and a pickup in consumer spending fueled by a rebound in durable goods. These improvements were partially offset by a decrease in residential investment and a continuing drag from net exports. Real activity has cooled appreciably from the robust 4.1 percent growth in the second half of last year. Moreover, most economists expect real GDP growth to slow to 1.7 percent in Q3 and to remain below 2 percent through 2Q:2025 (Figure 1).

• **The prop to growth from fiscal policy is fading.** The CHIPS & Science Act, the Infrastructure & Jobs Act, and other fiscal measures helped to fuel 12 percent growth in real private nonresidential investment in structures and real federal nondefense gross investment last year. At their peak in 1Q:2023, these sectors grew by an annualized 25 percent (Figure 2) and contributed almost a full percentage point to the quarter's 2.2 percent increase in real GDP. But growth in these sectors has weakened, increasing less than 1 percent in 1H:2024 as the impact of fiscal measures has waned.

• **Cracks have emerged in the labor market.** Hiring slowed sharply in July and the unemployment rate rose. The pace of job growth has been ebbing since March of this year while the jobless rate has been edging up since mid-2023 (Figure 3). Initial claims for unemployment insurance, a leading indicator of labor market conditions, continue to rise. Claims bottomed in January of this year at 194,000 but have grown by 55,000 since then, reaching 249,000 in July. Although the current level of claims still indicates a relatively healthy job market, the upward trend is concerning and could augur rising layoffs.

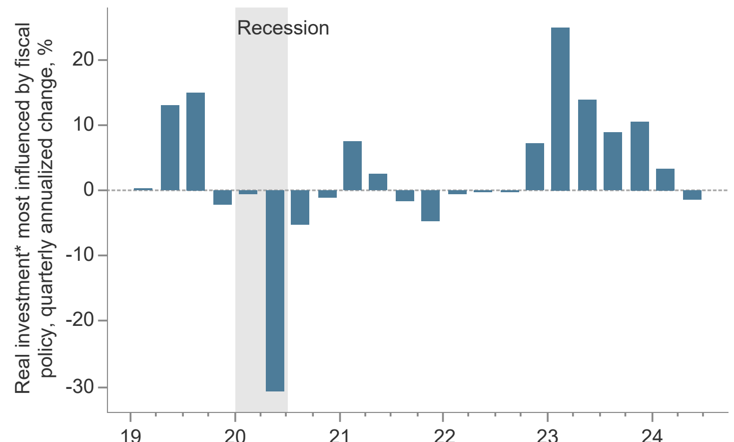
• **The FOMC held its policy rate steady at its meeting in July but hinted it might lower rates in September.** Long rates have already fallen in anticipation of a rate cut and the yield curve has remained inverted since late 2022 (Figure 4). Most post-WWII inversions have been followed by recessions. But so far, the U.S. has avoided a downturn. Post-pandemic effects may have lessened this inversion's predictive power. Economists expect a soft landing for the U.S. and multiple rate cuts through 2025. This would allow the yield curve to resume a normal, upward slope.

Figure 1: Real GDP growth expected to slow from strong 2Q pace, but economists continue to project a soft landing



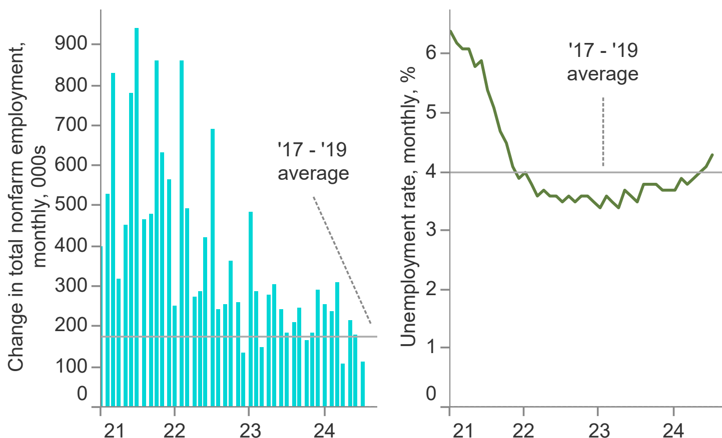
Sources: BEA (2Q:2024), Blue Chip Economic Indicators (August 2024)

Figure 2: Impact of fiscal stimulus measures on private and government investment spending has faded



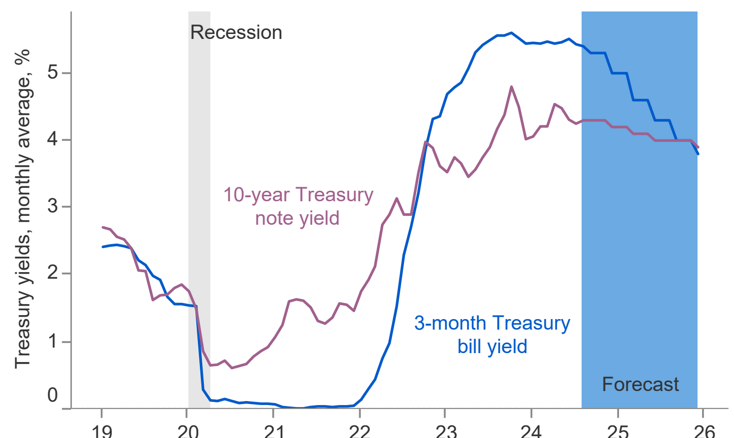
Source: BLS (2Q:2024). *Private nonres. structures + Federal nondef. invest.

Figure 3: Businesses reduced hiring in July, raising concerns that economy may be slowing more rapidly than anticipated



Source: BLS (July 2024)

Figure 4: Short-term rates expected to steadily fall, which will eventually normalize the yield curve



Sources: FRB (August 2024), Blue Chip Economic Indicators (August 2024)