UPDATE: US GDP expanded at record 33.1% annual pace in Q3, but momentum fading

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Market Intelligence

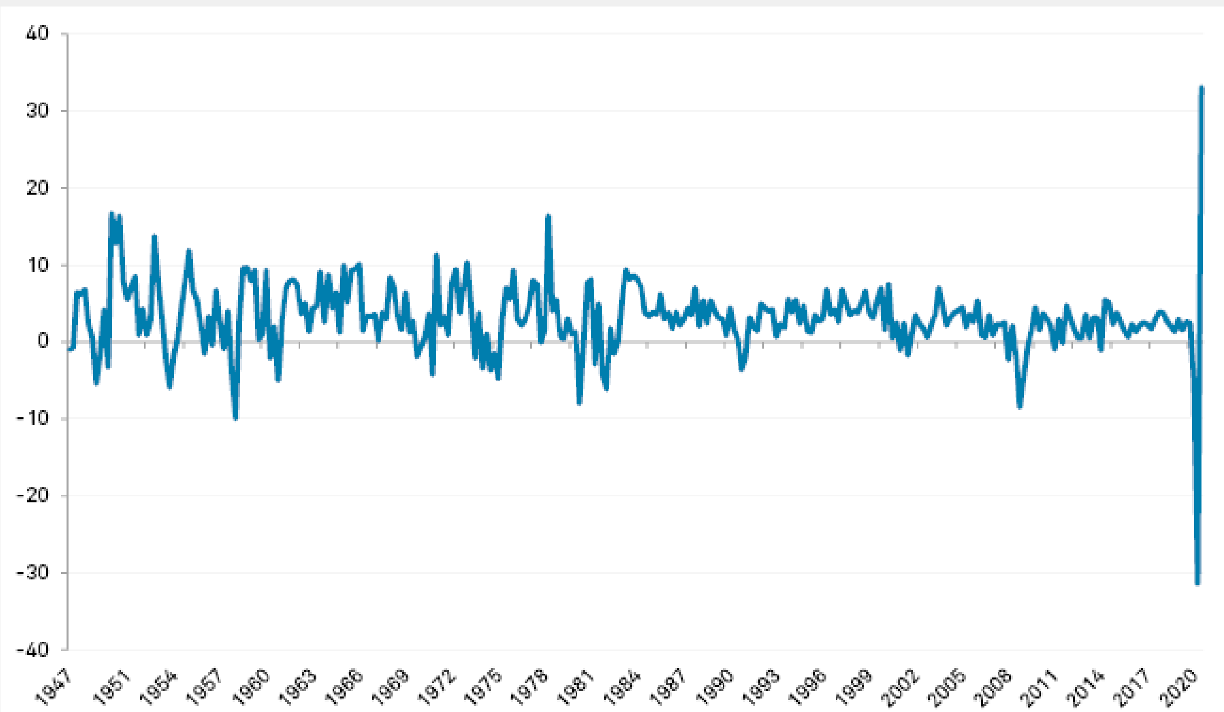
The U.S. economy expanded at a record annual rate of 33.1% in the third quarter, fueled by a surge in consumer spending and exports as the country emerged from lockdown measures, but the rebound is likely to fade in the fourth quarter as the pandemic resurges and stimulus effects wear off.

The consensus estimate of economists polled by Econoday was for the economy to expand 30.9%, with forecasts running from 20.0% to 36.0%.

U.S. GDP dropped 31.4% in the second quarter after a 5% drop in the first quarter, so the 33.1% annualized increase did not get the economy back to its pre-pandemic level. And economists warned that growth is already slowing.

"The headline number itself is more revealing of how much deeper the contraction was in the second quarter," Satyam Panday, U.S. senior economist for S&P Global Ratings, said in an interview. "You get this initial burst out the gates, and the question is: Can we really sustain it to get to a normal level? We think not."

US GDP rebounds in Q3 after historic plunge in Q2 (%)



Data compiled Oct. 29, 2020.
The data represents annualized quarterly change in GDP.
Source: U.S. Bureau of Economic Analysis

S&P Global Ratings projects 3.5% GDP growth in the fourth quarter, a forecast with downside risk from virus-related capacity constraints and a possible lack of further fiscal stimulus, Panday said. This muted growth path will be par for the course until there is a vaccine, he said. Services, a much larger portion of GDP than goods, are hampered by coronavirus issues and will continue to suffer as long as virus cases continue to rise and consumers feel uncomfortable going to gyms and restaurants and traveling consistently, he added.

Much of the third-quarter bounce-back was driven by one-time purchases like cars, guns, recreational equipment, and work-from-home goods, said Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University. He also cited diminished state and local government spending, which accounts for roughly 15% of GDP, and a downside risk to health services that will likely see a pull-back in elective procedures as a recipe for much slower growth.

"The rebound was artificial," Dhawan said. "You made home and office purchases, but that phase is over now. This economic tangle is being led by the virus."

"The increase in third quarter GDP reflected continued efforts to reopen businesses and resume activities that were postponed or restricted due to COVID-19," the Bureau of Economic Analysis said.

Third-quarter economic growth was supported by increases in personal consumption expenditures, private inventory investment, fixed investment and exports. These were partially offset by a decline in government spending, amid a fall in fees paid to administer loans under the Paycheck Protection Program.

Personal consumption expenditures, or PCE, climbed 40.7% in the third quarter after falling 33.2% in the second quarter.

The increase in PCE reflected increases in services, led by healthcare, food services and accommodation, and in goods.

Exports jumped 59.7% while imports surged 91.1% in the third quarter.

Current-dollar personal income declined $540.6 billion in the third quarter amid a fall in government social benefits linked to pandemic relief programs. The personal saving rate came in at 15.8%, down from the second quarter's 25.7%.

The core PCE price index, the Fed's favored gauge of inflation, increased 3.5% following a decrease of 0.8% in the previous quarter. The headline PCE price index rose 3.7%, compared with the prior quarter's 1.6% decline.

Jay Bryson, managing director and senior economist for Wells Fargo Corporate and Investment Bank, projects 6.1% GDP growth in the fourth quarter.

"But growth could slow considerably more in Q4 in COVID cases cause sweeping restrictions to be re-implemented in many states," Bryson said. "The near term outlook depends critically on the evolution of the pandemic in the coming weeks and months."

Article updated at 11:10 a.m. ET on Oct. 29, 2020, to include commentary and analysis from economists.

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