# U.S. ECONOMIC SNAPSHOT

September 2023

## Economic growth remains solid despite higher interest rates

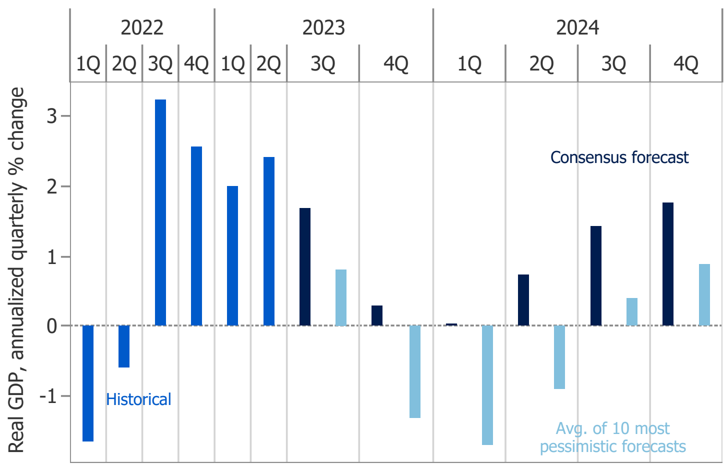
• **The US economy is proving more resilient than anticipated.** Real gross domestic product (GDP) increased at an annual rate of 2.4 percent in 2Q:2023, up slightly from the first quarter's 2.0 percent pace. Most economists had expected a decline in 2Q GDP. Consumer spending, which accounts for almost 70 percent of GDP, continued to support real activity, contributing 1.1 percentage points to the first quarter's annualized rate. GDP was also powered by an upturn in inventories and an acceleration in nonresidential fixed investment. The Blue Chip Consensus now expects real GDP growth to slow through early 2024 but to avoid an outright decline (Figure 1).

• **Consumer spending continues to support growth.** This has occurred to a large degree as individuals draw down savings swollen by pandemic transfer payments (Figure 2). Uncertainty about the economy also prompted many households to liquidate debt securities in 2020 and 2021 to increase liquidity. Although drawdowns of excess savings are well underway, enough could remain to support household outlays at least through the end of this year.

• **Housing starts and auto sales have performed better compared to earlier Federal Reserve tightening cycles (Figure 3).** These credit-sensitive sectors are key channels through which tighter monetary policy slows the economy. Housing construction has rebounded since April due to a lack of existing homes for sale. Many households refinanced their mortgages during the pandemic and locked in very low borrowing costs, making them reluctant to move. A global shortage of semiconductors restrained auto inventories and sales following the pandemic, resulting in heavy pent-up demand, which continues to prop up auto sales.

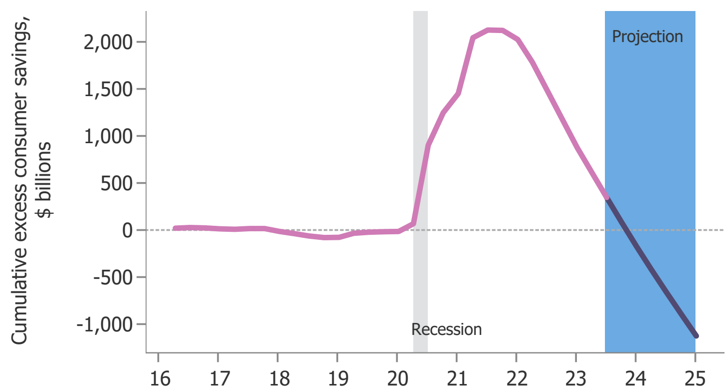
• **The economy has so far avoided a recession despite an inverted yield curve (Figure 4).** While predictive, inverted yield curves do not cause recessions and it is possible that post-pandemic effects may have lessened this inversion's predictive power. Investors expect short rates to fall. Whether due to a recession or soft-landing, both include predictions of inflation slowing to the Federal Reserve's target and an easing in the policy rate, which would allow the yield curve to move toward a normal upward slope.

**Figure 1: GDP growth rate picked up in the second quarter; Consensus now forecasts a "soft landing"**



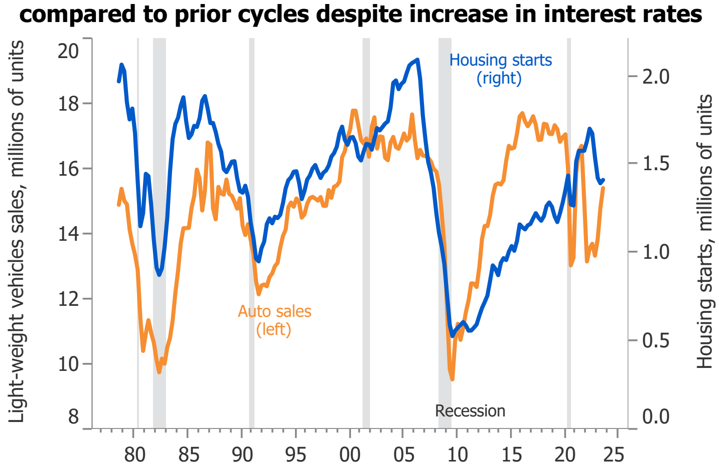

Sources: BEA (2Q:2023), Blue Chip Economic Indicators (August 2023)

**Figure 2: Consumer spending supported by stock of excess savings; drawdown is well underway**



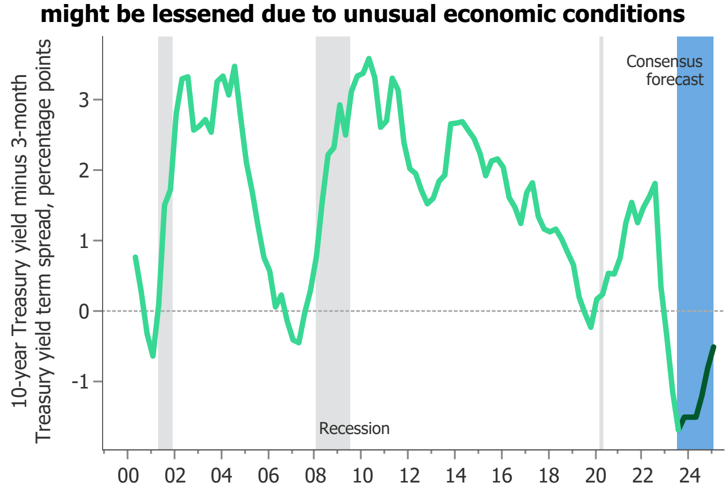

Sources: BEA (2Q:2023), Blue Chip Economic Indicators (August 2023), OCC calculations. Note: excess savings is measured as the difference between disposable personal income and its trend to the difference between personal consumption expenditures and its trend.

**Figure 3: Housing starts and auto sales have held up compared to prior cycles despite increase in interest rates**




Sources: BEA (July 2023), Census Bureau (July 2023)
Note: data are seasonally adjusted at an annual rate, 2-qtr rolling average

**Figure 4: The yield curve's ability to predict a recession might be lessened due to unusual economic conditions**




Sources: U.S. Treasury (2Q:2023), Blue Chip Economic Indicators (August 2023)