Office of the Comptroller of the Currency

U.S. ECONOMIC SNAPSHOT

February 2025

Economy slowed in 4Q:2024 despite strong consumer spending

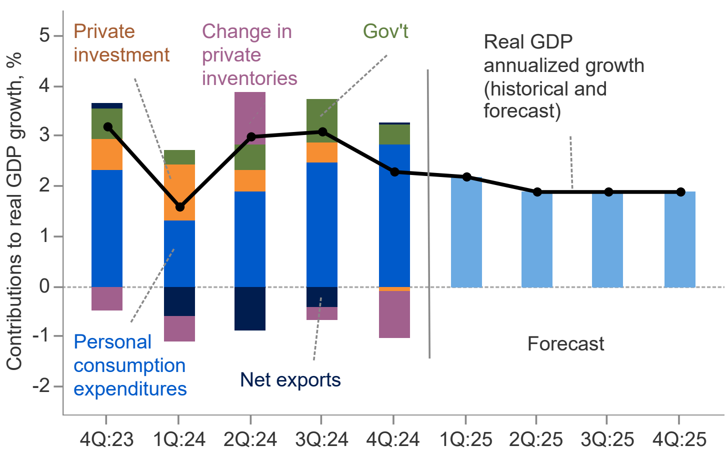
• **Real GDP grew at an annualized rate of 2.3 percent in 4Q:2024, down from the previous quarter's 3.1 percent pace (Figure 1).** Activity was fueled by consumer spending and residential investment which jumped 4.2 percent and 5.3 percent, respectively. But this was partially offset by weakness elsewhere. Businesses spent far less on restocking inventories and pulled back on investment in structures and equipment. Activity has cooled from the robust 3.8 percent pace in the second half 2023 and growth is expected to ease back to its trend rate of 2 percent.

• **Consumption consistently beat expectations through the fourth quarter but growth is expected to slow.** Wages rose at well above the rate of inflation in 2024. Combined with solid job growth, this propped up real income growth (Figure 2). Moreover, joblessness remained low. These factors encouraged households to spend, with consumption growth accelerating throughout the year. But forecasters expect consumption growth to slow in 2025. Contributing factors may be depletion of pandemic-era excess savings as well as an expected slower pace of hiring.

• **Household net worth is near historical highs which also supports consumption gains (Figure 3).** Big stock market gains and rising home values helped to fuel the rise in net worth. Greater wealth can lift spending in several ways. Households can sell assets or borrow against their wealth to finance their purchases. In addition, increases in wealth represent a form of savings to households which may prompt them to save less (and spend more) out of their current incomes. However, the impact of wealth on consumption is far smaller than that of employment and income. So, most forecasters continue to expect a slowdown in spending growth.

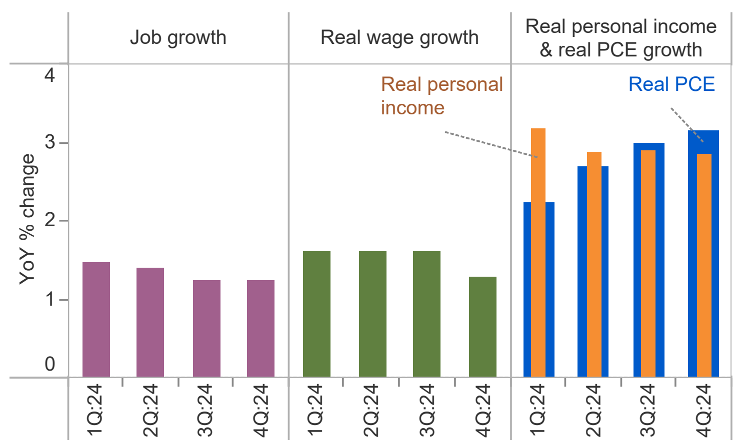
• **Mortgage rates remain elevated which could restrain spending on housing and housing-related consumer durables this year (Figure 4).** The 30-year mortgage rate moves closely with the 10-year Treasury yield since the duration of a 30-year mortgage is typically around 10 years. Despite cuts in the Federal Funds rate, 10-year Treasury yields remain elevated as solid economic data have persuaded investors to scale back their hopes of further aggressive monetary easing through next year.

Figure 1: Real GDP growth expected to slow to its trend rate in coming quarters



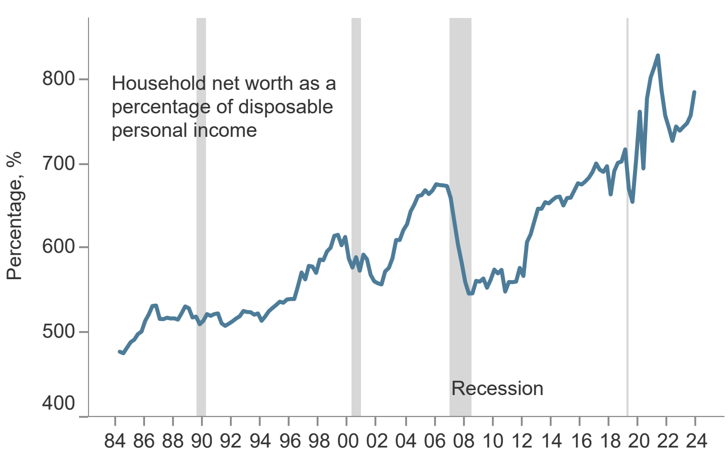
Sources: BEA (4Q:2024), Blue Chip Economic Indicators (Feb. 2025)

Figure 2: Strong job and wage growth supported consumers last year, but these influences are expected to fade somewhat



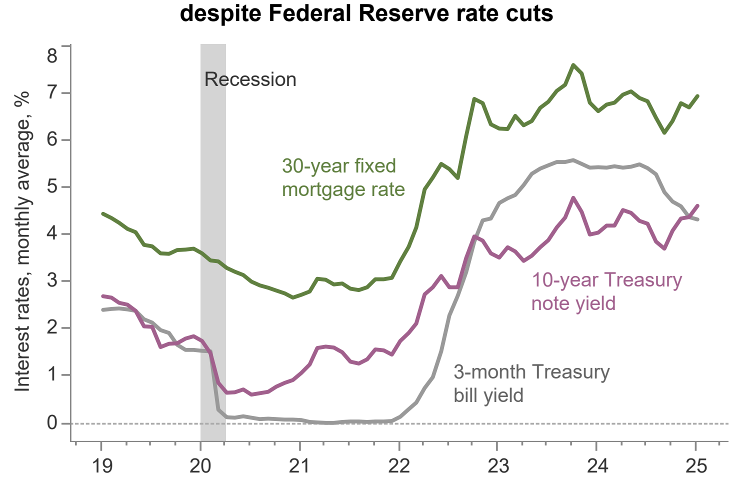
Sources: BLS (Jan. 2025), BEA (4Q:2024)
Note: PCE = personal consumption expenditures

Figure 3: Household net worth near record highs, but influence on consumption may lessen this year



Sources: FRB (3Q:2024)

Figure 4: Mortgage rates remain elevated despite Federal Reserve rate cuts



Sources: FRB (Jan. 2025), FHLMC (Jan. 2025), Blue Chip (Feb. 2025)