Office of the Comptroller of the Currency

U.S. ECONOMIC SNAPSHOT

November 2023

The economy surged in 3Q but is expected to slow into next year

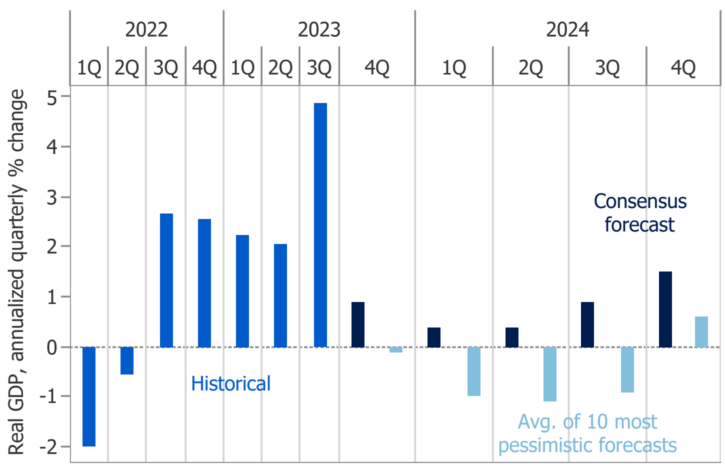
• **Real GDP increased at a strong 4.9 percent annual rate in 3Q, exceeding expectations (Figure 1).** Consumers powered the surge in growth, supported by a still-tight job market, savings boosted by pandemic-era transfers, and record net worth. GDP was also buoyed by restocking of business inventories and a pickup in government spending bolstered by federally funded infrastructure projects. Despite the strong quarter, GDP growth is expected to slow but to avoid an outright decline despite emerging headwinds.

• **Interest-sensitive household sectors have outperformed compared to earlier tightening cycles (Figure 2).** Home building rebounded in 3Q due to a scarcity of existing homes for sale. Many Americans refinanced their mortgages during the pandemic and locked in low borrowing costs, making them reluctant to sell. A shortage of semiconductors restrained auto sales after COVID, resulting in pent-up demand. But after picking up earlier this year, real disposable incomes fell over the summer while consumers have spent much of their excess savings over the past year. These changes may curb spending and growth in coming months.

• **Longer-term Treasury yields have risen 140 basis points since early April (Figure 3).** Alongside a stronger dollar and lower stock prices, this increase has contributed to tighter financial conditions. Investor expectations for further Federal Reserve rate hikes could be behind the gain in long yields. Anticipation of rising federal debt issuance could also be boosting yields. But a hiring slowdown in October suggests the economy may be starting to cool. If growth does slow as forecast, long rates could quickly fall back.

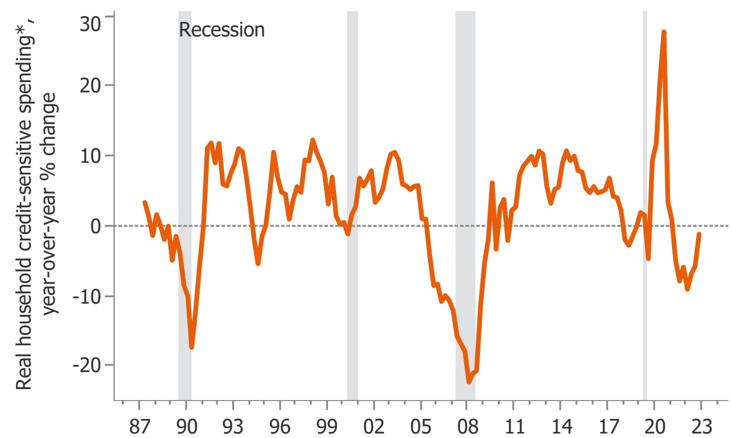
• **Higher long-term Treasury yields are pushing up household and business borrowing costs, which could weigh on those sectors in coming months.** Buoyed by supportive fiscal policies, investment in business structures surged this year (Figure 4). Growth stalled as creditors pulled back on construction loans and investor appetite for debt shrank as interest rates rose. Equipment and intellectual property investment, which includes research and development, also softened. Further, surveys suggest small firms are struggling to access credit and its cost has roughly doubled. This could augur cutbacks in capital spending at these companies.

Figure 1: GDP growth rate jumped in the third quarter; Consensus continues to project a "soft landing"



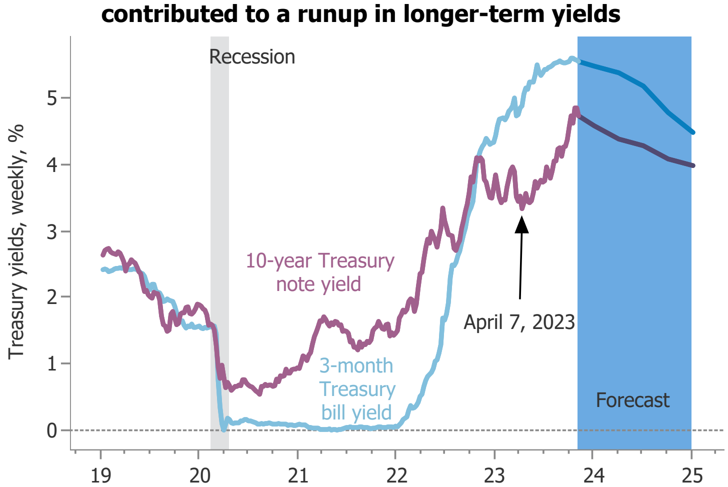
Sources: BEA (3Q:2023), Blue Chip Economic Indicators (November 2023)

Figure 2: Interest-sensitive household sectors have held up relative to prior cycles despite increase in interest rates



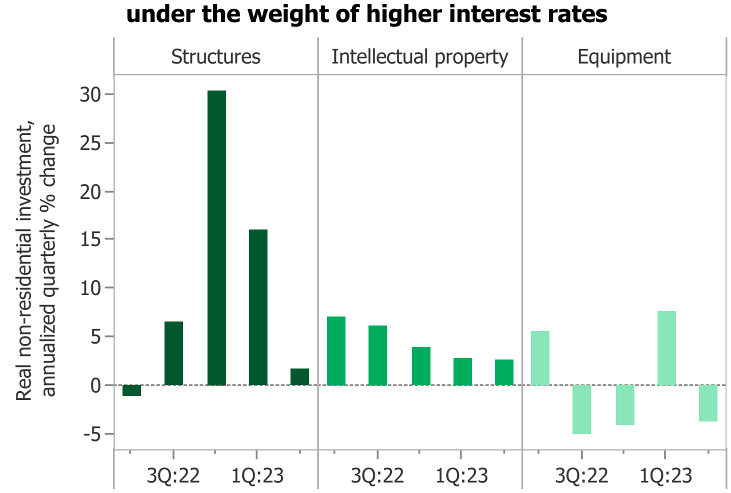
Source: BEA (3Q:2023)
* Residential investment, motor vehicles, and household furnishings & equipment

Figure 3: Stronger than expected economic growth has contributed to a runup in longer-term yields



Source: FRB (Nov. 3, 2023), Blue Chip Economic Indicators (Nov. 2023)

Figure 4: Business capital spending is softening under the weight of higher interest rates



Source: BEA (3Q:2023)