RESEARCH BRIEF
GROSS DOMESTIC PRODUCT

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GDP Reaffirms Resilience in the Economy, Boosts Prospects of a Soft Landing

U.S. economic growth accelerates. Real gross domestic product increased at an annualized rate of 2.4 percent in the second quarter of this year, outpacing consensus expectations for 1.5 percent growth. It also marked an acceleration from the 2.0 percent advance during the first three months of 2023. Gains in consumer spending, non-residential fixed investment, private inventory investment, as well as state, local and federal government spending, contributed to this momentum. The U.S. economy has now expanded at a 2-plus percent pace in each of the past four quarters, following a mild reduction in early 2022.

Infrastructure investment evident in industrial construction. Gross private domestic investment rose by an annualized rate of 5.7 percent, after falling by 11.9 percent in the first quarter. Businesses are elevating expenditures on equipment, intellectual property products and non-residential structures. Government spending also improved by an annualized rate of 2.6 percent during the second quarter, due in part to investments in infrastructure. Efforts to improve semiconductor and electric vehicle manufacturing helped lift industrial development to near-record levels, as roughly 400 million square feet of space is slated for delivery in 2023.

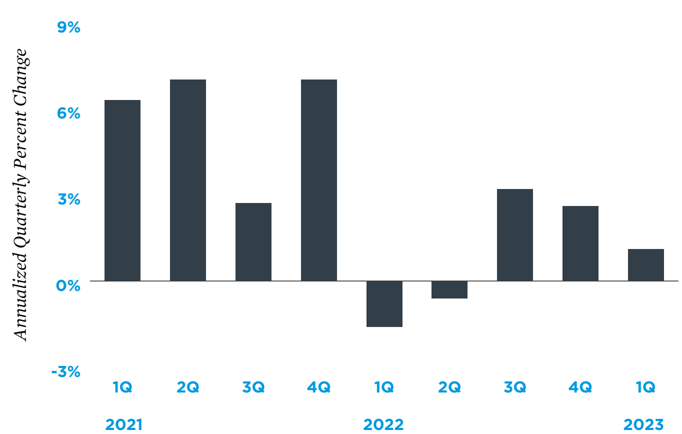
Gains in consumer spending may soften. Americans have benefited from a tight labor market that has driven above-average wage gains and helped household budgets overcome persistent inflation. Consumer spending improved at an annualized rate of 1.6 percent in the second quarter; nevertheless, this figure is down from the 4.2 percent gain during the first three months of the year. Households have shown a willingness to spend, but they have become increasingly price sensitive amid record debt balances and tighter credit conditions. The national retail vacancy rate has held below 2019 levels, remaining at 4.6 percent during each of the past three quarters ending in June. However, the resumption of student loan repayments later this year will impact the spending power of more than 43 million borrowers, which may continue to slow growth in personal consumption expenditures through the rest of the year.

Capital Markets Implications

Fed resumed rate increases. After taking a rate hike hiatus in June, the Federal Open Market Committee raised the federal funds rate by 25 basis points at their July meeting, marking the 11th increase since March 2022. The Fed also stated it will continue to allow up to $60 billion in Treasury securities and $35 billion in agency mortgage-backed securities to mature and roll off its balance sheet each month. The tight labor market, cooling inflation and continued consumer spending have increased the likelihood that the economy could be slowing to a soft landing. However, chairman Jerome Powell stated that the central bank will assess the totality of incoming data before making a decision to pause or continue rate hikes during the upcoming September meeting. As inflation continues to move closer to the Federal Reserve's target rate of 2 percent, the magnitude of interest rate increases is likely to slow. This could potentially help creditors and investors to become more closely aligned with the current state of capital markets, and help facilitate a more active lending environment for commercial construction and investment sales.

2.4%	7.7%
Annualized Rate of Change in Real GDP in 2Q 2023	*Annualized Rate of Change in Nonresidential Fixed Investment in 2Q 2023*

GDP Growth Moderating Through First Quarter



Sources: IPA Research Services; Bureau of Economic Analysis; CoStar Group, Inc.; CME Group