11-1-2024

WSJ Print Edition

The Message of 2.8% GDP Growth

The U.S. economy is a remarkable growth machine, and the latest evidence is Wednesday's Commerce Department report showing GDP grew at a solid 2.8% during the third quarter.

It's both good and bad news that consumers and defense spending drove most of the thirdquarter growth. Consumer spending contributed 2.46 percentage points to GDP while defense added 0.51. Defense investment declined in 2021 and 2022, so the recent boost is especially welcome in an increasingly dangerous world. Consumers remain in the saddle despite higher interest rates and inflation that have eroded wage gains. Rising asset values seems to be buoying spending by higher earners.

The big disappointment was business investment, which chipped in only 0.46 points to growth. (Housing and net exports subtracted.) Most of that came from equipment. Spending on research and development has been flat in the past two quarters. R& D is usually what businesses cut first to pare costs.

One culprit could be a decline in R& D by pharmaceutical companies. We reported in the summer that the Inflation Reduction Act's drugprice controls were causing enormous industry uncertainty and reductions to R& D. Uncertainty related to the election could also be causing some businesses to hold off investment.

Donald Trump's threat of 10% across-theboard tariffs could require businesses to adjust supply chains. On the other hand, businesses will see their taxes increase if Kamala Harris wins. She wants to raise the corporate tax rate to 28% from 21%, impose a new global minimum tax, and increase the IRA's corporate book tax to 21% from 15%. *

It's a testament to the U.S. economy's resilience that it continues to chug along despite the Biden Administration's regulatory burdens and higher interest rates. Artificial intelligence and other innovations have lifted investment, and the U.S. remains a more attractive place to invest than nearly anywhere else in the world. *

But it's also true that monetary conditions aren't all that tight judging by the surge in prices for Bitcoin, commodities and equities, as well as shrinking junk-bond spreads. Life has been good if you own assets, but much less so if you rely on shrinking real wages to pay for groceries and gas. Americans still need the Federal Reserve to reduce and contain inflation. *