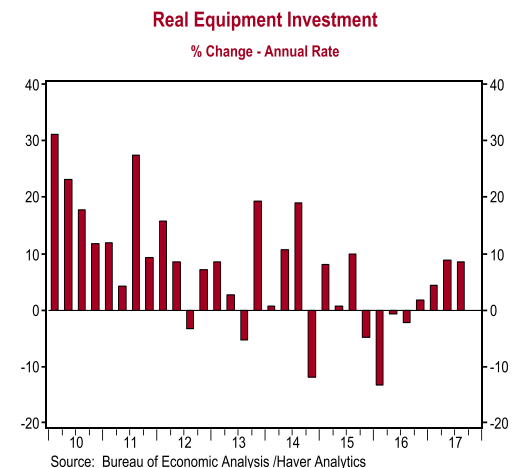
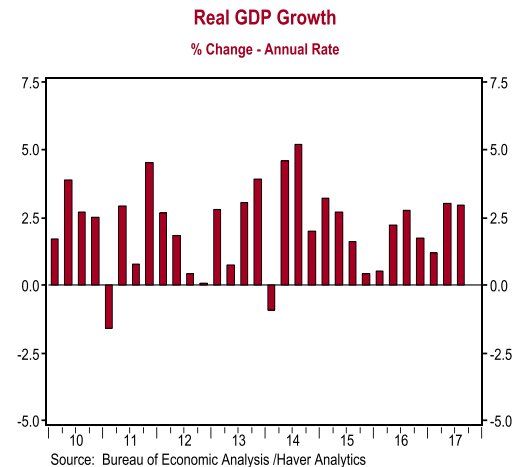


## Third Quarter GDP (Advance)

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- The first estimate for Q3 real GDP growth is 3.0% at an annual rate, beating the 2.6% the consensus expected. Real GDP is up 2.3% from a year ago.
- The largest positive contributions to the Q3 real GDP growth rate were consumer spending, inventories, business investment in equipment, and net exports.
- Personal consumption, business investment, and home building, combined, grew at a 2.2% annual rate in Q3. They're up at a 2.8% rate in the past year and up at a 2.5% annual rate in the past two years.
- The GDP price index increased at a 2.2% annual rate in Q3. Nominal GDP – real GDP plus inflation – rose at a 5.2% rate in Q3, is up 4.1% from a year ago, and up at a 3.4% annual rate from two years ago.

**Implications:** The US economy is still a Plow Horse, but it looks like it's starting to pick up the pace. Real GDP grew at a 3.0% annual rate in the third quarter, the second straight quarterly reading at 3% or above. What's most impressive is the 3% growth happened in spite of two hurricanes that are likely to push some economic activity into the fourth quarter. As a result, we're projecting growth exceeds the 3% benchmark in Q4 as well, which would be the first time we've had three straight quarters that fast since before the financial crisis. Keep in mind that we are also likely to get a mix of tax cuts and tax reform sometime in the next several months, which should spur growth further. However, none of this means the Plow Horse is going to get immediately replaced by a thoroughbred. It's always possible that lawmakers fumble and end up not getting a tax bill done. Meanwhile, inventories contributed 0.7 percentage points to the growth rate in Q3. "Core" GDP – real GDP excluding inventories, trade, and government – grew at a pedestrian 2.2% rate in Q3. Despite these caveats, the Federal Reserve should look at today's report as a reason to keep increasing short-term interest rates, including at the meeting on December 13. Nominal GDP – real GDP growth plus inflation – grew at a 5.2% annual rate in Q3, the fastest pace for any quarter in three years. In the past two years, nominal GDP has grown at a 3.4% annual rate, which signals that short term interest rates should be higher to contain an increase in future inflation. In other recent news, pending home sales, which are contracts on existing homes, were unchanged in September after dropping 2.8% in August. These figures suggest a decline in existing home sales (counted at closing) in October. For the job market, initial unemployment claims rose 10,000 last week to a still low 233,000. Continuing claims declined 3,000 to 1.89 million. These figures are consistent with our forecast that nonfarm payrolls have increased 320,000 this month, a sharp rebound from the storm-related drop of 33,000 in September.



<b>3rd Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q3-17</b>	<b>Q2-17</b>	<b>Q1-17</b>	<b>Q4-16</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>3.0%</b>	3.1%	1.2%	1.8%	2.3%
<b>GDP Price Index</b>	<b>2.2%</b>	1.0%	2.0%	2.0%	1.8%
<b>Nominal GDP</b>	<b>5.2%</b>	4.1%	3.3%	3.8%	4.1%
<b>PCE</b>	<b>2.4%</b>	3.3%	1.9%	2.9%	2.6%
<b>Business Investment</b>	<b>3.9%</b>	6.7%	7.1%	0.2%	4.4%
<b>Structures</b>	<b>-5.2%</b>	7.0%	14.8%	-2.2%	3.3%
<b>Equipment</b>	<b>8.6%</b>	8.8%	4.4%	1.8%	5.9%
<b>Intellectual Property</b>	<b>4.3%</b>	3.7%	5.8%	-0.4%	3.3%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q3-17</b>	<b>Q2-17</b>	<b>Q1-17</b>	<b>Q4-16</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>1.6</b>	2.2	1.3	2.0	1.8
<b>Business Investment</b>	<b>0.5</b>	0.8	0.9	0.0	0.5
<b>Residential Investment</b>	<b>-0.2</b>	-0.3	0.4	0.3	0.0
<b>Inventories</b>	<b>0.7</b>	0.1	-1.5	1.1	0.1
<b>Government</b>	<b>0.0</b>	0.0	-0.1	0.0	0.0
<b>Net Exports</b>	<b>0.4</b>	0.2	0.2	-1.6	-0.2