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Third Quarter GDP (Advance)

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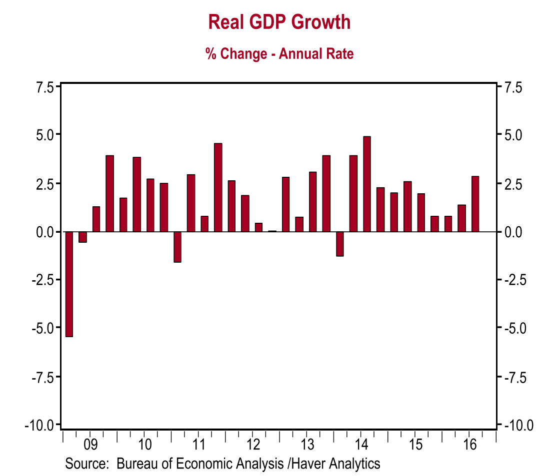
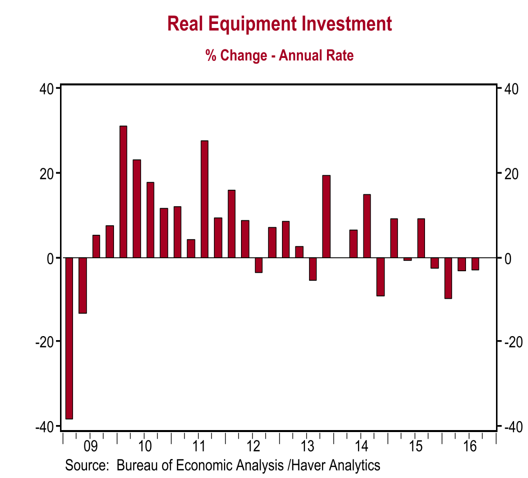
- The first estimate for Q3 real GDP growth is 2.9% at an annual rate, beating the 2.6% the consensus expected. Real GDP is up 1.5% from a year ago.
- The largest positive contributions to the Q3 real GDP growth rate were consumer spending, net exports, and inventories.
- Personal consumption, business investment, and home building, combined, grew at a 1.6% annual rate in Q3. They're up at a 1.9% rate in the past year and up at a 2.6% annual rate in the past two years.
- The GDP price index increased at a 1.5% annual rate in Q3. Nominal GDP – real GDP plus inflation – rose at a 4.4% rate in Q3, is up 2.8% from a year ago, and up at a 3.0% annual rate from two years ago.

Implications: The Plow Horse economy picked up the pace in the third quarter, growing at a 2.9% annual rate and slightly beating the consensus expected pace of 2.6%. We do not think this is some sort of government conspiracy to help boost the election hopes of Hillary Clinton. A 3% headline would look much better than 2.9%, so if they're going to mess with the data, it doesn't make sense to stop at 2.9% when 3% would look so much better to the general public. The growth in Q3 was largely accounted for by consumer spending, net exports, and inventories. The other categories had no net effect on real GDP growth, with slight increases in commercial construction, business investment in R&D, and government purchases, offset by slight declines in business investment in equipment as well as home building. Nothing in today's report should alter anyone's view on the economy, but it does boost the case for a December rate hike by the Federal Reserve. Nominal GDP – real GDP growth plus inflation – grew at a 4.4% annual rate in Q3, the fastest pace in more than a year. In the past two years, nominal GDP has grown at a 3% annual rate, which signals that short term interest rates should be higher to contain an increase in future inflation. Although the PCE price index is only up 1.0% from a year ago, that same index was only up 0.3% in the year ending in the third quarter of 2015, so an acceleration in inflation is already underway. The idea of raising short-term rates when real GDP growth is still tepid seems odd to some. But much higher levels of government spending, particularly transfer payments to persons, have reduced the growth potential of the US economy and monetary policy can't make up for bad fiscal policy. Rather than focusing on the Fed, policymakers ought to focus on cutting spending and deregulating the economy, particularly the energy and health care sectors.





3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-16	Q2-16	Q1-16	Q4-15	4-Quarter Change
Real GDP	**2.9%**	1.4%	0.8%	0.9%	1.5%
GDP Price Index	**1.5%**	2.3%	0.5%	0.8%	1.3%
Nominal GDP	**4.4%**	3.7%	1.3%	1.8%	2.8%
PCE	**2.1%**	4.3%	1.6%	2.3%	2.6%
Business Investment	**1.1%**	1.0%	-3.4%	-3.3%	-1.2%
Structures	**5.4%**	-2.1%	0.1%	-15.2%	-3.3%
Equipment	**-2.7%**	-3.0%	-9.5%	-2.6%	-4.5%
Intellectual Property	**4.0%**	9.0%	3.8%	4.5%	5.3%
Contributions to GDP Growth (p.pts.)	**Q3-16**	**Q2-16**	**Q1-16**	**Q4-15**	**4Q Avg.**
PCE	**1.5**	2.9	1.1	1.5	1.7
Business Investment	**0.2**	0.1	-0.4	-0.4	-0.2
Residential Investment	**-0.2**	-0.3	0.3	0.4	0.0
Inventories	**0.6**	-1.2	-0.4	-0.4	-0.3
Government	**0.1**	-0.3	0.3	0.2	0.1
Net Exports	**0.8**	0.2	0.0	-0.5	0.1