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Third Quarter GDP (Advance)

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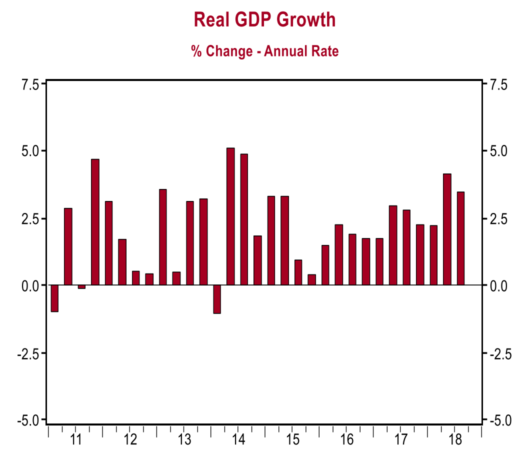
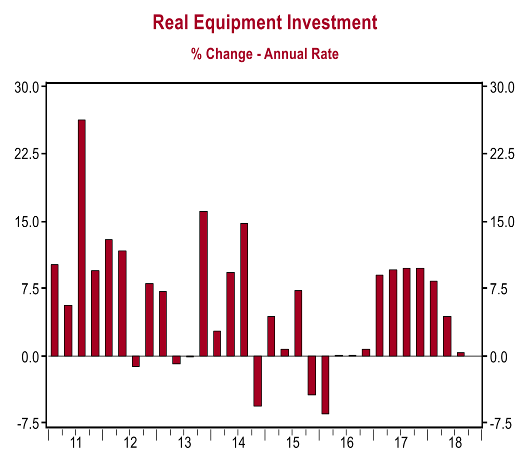
- The first estimate for Q3 real GDP growth is 3.5% at an annual rate, beating the 3.3% the consensus expected. Real GDP is up 3.0% from a year ago.
- The largest positive contributions to the Q3 real GDP growth rate were consumer spending and inventories. The largest drag was net exports.
- Personal consumption, business investment, and home building, combined, grew at a 3.1% annual rate in Q3. They're up at a 3.4% rate in the past year and up at a 3.1% annual rate in the past two years.
- The GDP price index increased at a 1.7% annual rate in Q3. Nominal GDP – real GDP plus inflation – rose at a 4.9% rate in Q3, is up 5.5% from a year ago, and up at a 4.8% annual rate from two years ago.

Implications: The US economy continues to show strength. Real GDP grew at a 3.5% annual rate in the third quarter, the second straight quarterly reading at 3% or above. What's most impressive is the 3.5% growth happened in spite of two hurricanes that likely pushed some economic activity into the fourth quarter. Be careful of the pessimists today, who will assert that inventories artificially boosted growth in the third quarter. Yes, it's true that the pace of inventory accumulation was fast, inventories contributed 2.1 percentage points to the growth rate in Q3. However, that simply makes up for the unusually large drop of 1.2 percentage points in inventories in the second quarter. A similar story holds true for net exports, which were an unusually large drag on growth in Q3 (-1.8 percentage points to the growth rate) after pushing growth higher in Q2 by 1.2 percentage points. In other words, inventories and trade just swapped the roles they played in Q2. We like to follow "core" real GDP which excludes inventories, international trade, and government purchases, none of which can be counted on for long-term economic growth. This measure grew at a 3.1% annual rate in Q3 and is up 3.4% over the past year. In terms of the monetary policy, today's report shows that the Fed continues to have its work cut out for it. Nominal GDP – real GDP growth plus inflation – grew at a 4.9% annual rate in Q2 and in the past year is up 5.5%, the fastest pace since 2006. As a result, we are confident that the Fed will not only raise rates once more this year (25 basis points more) but will also raise rates four times next year. In turn, long-term interest rates should move up as well to reflect faster growth and more inflation. Deregulation and lower tax rates are boosting economic growth. The Plow Horse Economy – the plodding roughly 2% growth rate of mid-2009 through 2016 is dead and gone and more good news is on the way.



Source: Bureau of Economic Analysis /Haver Analytics



Source: Bureau of Economic Analysis /Haver Analytics

3rd Quarter GDP *Seasonally Adjusted Annual Rates*	Q3-18	Q2-18	Q1-18	Q4-17	4-Quarter Change
Real GDP	**3.5%**	4.2%	2.2%	2.3%	3.0%
GDP Price Index	**1.7%**	3.0%	2.0%	2.5%	2.3%
Nominal GDP	**4.9%**	7.6%	4.3%	5.1%	5.5%
PCE	**4.0%**	3.8%	0.5%	3.9%	3.0%
Business Investment	**0.8%**	8.7%	11.5%	4.9%	6.4%
Structures	**-7.9%**	14.5%	13.9%	1.3%	5.1%
Equipment	**0.4%**	4.6%	8.5%	9.9%	5.8%
Intellectual Property	**7.9%**	10.5%	14.1%	0.7%	8.2%
Contributions to GDP Growth (p.pts.)	**Q3-18**	**Q2-18**	**Q1-18**	**Q4-17**	**4Q Avg.**
PCE	**2.7**	2.6	0.4	2.6	2.1
Business Investment	**0.1**	1.2	1.5	0.6	0.8
Residential Investment	**-0.2**	-0.1	-0.1	0.4	0.0
Inventories	**2.1**	-1.2	0.3	-0.9	0.1
Government	**0.6**	0.4	0.3	0.4	0.4
Net Exports	**-1.8**	1.2	0.0	-0.9	-0.4