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3rd Quarter GDP (Final)

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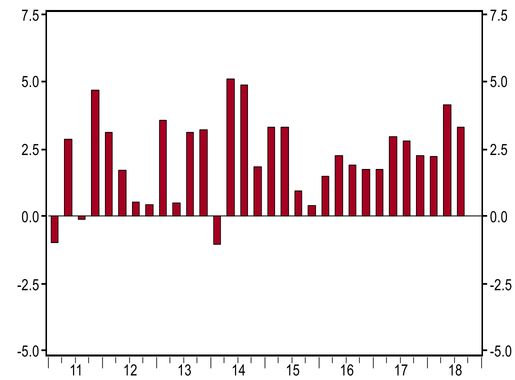
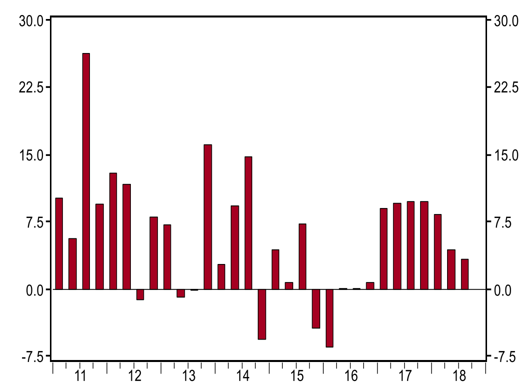
- Real GDP growth in Q3 was revised to a 3.4% annual rate from a prior estimate of 3.5%, coming in slightly below the consensus expected 3.5%.
- The downward revision was due to slightly weaker personal consumption and net exports.
- The largest positive contributions to the real GDP growth rate in Q3 came from consumer spending and inventories. The weakest component of real GDP was net exports.
- The GDP price index was revised higher to a 1.8% annualized rate of change versus a prior estimate of 1.7%. Nominal GDP growth – real GDP plus inflation – was revised down to a 4.9% annual rate versus a prior estimate of 5.0%. Nominal GDP is up 5.5% versus a year ago and up at a 4.8% annual rate in the past two years.

Implications: Today's final GDP report for the third quarter had real economic growth at a 3.4% annual rate, just below consensus expectations, but still the second fastest reading in four years and the second consecutive quarter of 3%+ real growth. The government made only minor changes to the components of GDP, but negative revisions slightly offset positive ones. The more important news in the report was that corporate profits were revised slightly higher from prior estimates, growing 3.5% in Q3 and up 10.4% from a year ago, the fastest growth rates since 2014 and 2012 respectively. The upward revision was mainly due to the nonfinancial corporate sector in the US, a bullish sign for capital investment in the year ahead. Meanwhile, thanks to the tax cuts, after-tax profits are up nearly 20% in the past year. Plugging the new profits data into our capitalized profits model suggests US equities remain cheap, not only at today's interest rates but even using a 10-year Treasury yield of 3.5%. In other words, the correction we have seen since mid-September is a buying opportunity; we expect the stock market to move higher in the months ahead. In terms of monetary policy, the Fed should see today's report as a confirmation that they made the right decision to raise short-term rates earlier this week. Nominal GDP growth (real growth plus inflation) was revised to a still healthy 4.9% annual rate in Q3 from a prior estimate of 5.0%, is up 5.5% in the past year, and up at a 4.8% annual rate in the past two years, leaving the Fed plenty of room for a few rate hikes in 2019. In other news yesterday, initial jobless claims rose 8,000 last week to 214,000. Meanwhile, continuing claims rose 27,000 to 1.69 million. These figures are at very low levels and consistent with continued robust job gains in December.



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	**3.4%**	4.2%	2.2%	2.3%	3.0%
GDP Price Index	**1.8%**	3.0%	2.0%	2.5%	2.3%
Nominal GDP	**4.9%**	7.6%	4.3%	5.1%	5.5%
PCE	**3.5%**	3.8%	0.5%	3.9%	2.9%
Business Investment	**2.5%**	8.7%	11.5%	4.9%	6.8%
Structures	**-3.4%**	14.5%	13.9%	1.3%	6.3%
Equipment	**3.4%**	4.6%	8.5%	9.9%	6.6%
Intellectual Property	**5.6%**	10.5%	14.1%	0.7%	7.6%
Contributions to GDP Growth (p.pts.)	**Q3-18**	**Q2-18**	**Q1-18**	**Q4-17**	**4Q Avg.**
PCE	**2.4**	2.6	0.4	2.6	2.0
Business Investment	**0.4**	1.2	1.5	0.6	0.9
Residential Investment	**-0.1**	-0.1	-0.1	0.4	0.0
Inventories	**2.3**	-1.2	0.3	-0.9	0.1
Government	**0.4**	0.4	0.3	0.4	0.4
Net Exports	**-2.0**	1.2	0.0	-0.9	-0.4

Source: Bureau of Economic Analysis