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3rd Quarter GDP (Preliminary)

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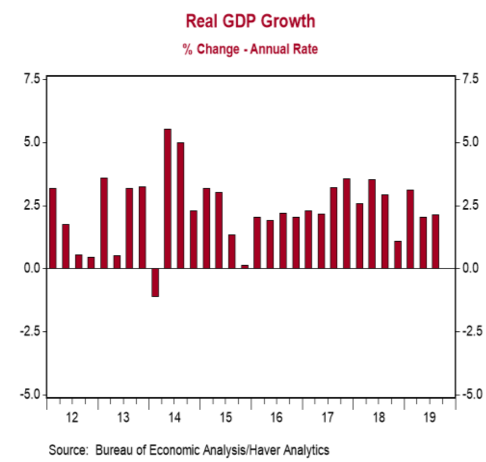
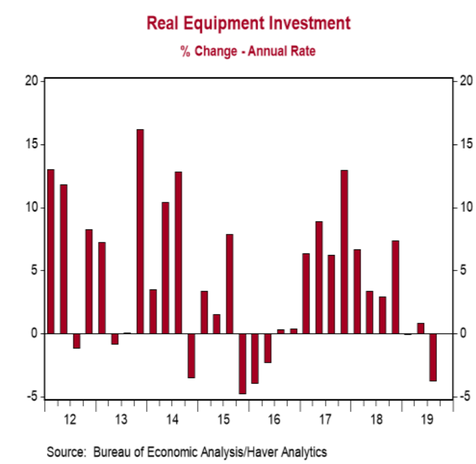
- Real GDP was revised to a 2.1% annual growth rate in Q3, coming in higher than the initial estimate and consensus expected 1.9%.
- The upward revision was mainly due to inventories and business investment in structures, which offset a downward revision in government purchases.
- The largest positive contribution to the real GDP growth rate in Q3 was personal consumption. The largest drag was business investment.
- The GDP price index increased at a 1.8% annual growth rate in Q3 versus a prior estimate of 1.7%. Nominal GDP growth – real GDP plus inflation – was revised up to a 3.8% annual rate from a prior estimate of 3.5%.

Implications: Real GDP grew at a 2.1% annual rate in Q3, beating the original estimate and the consensus expected 1.9% pace. Inventories were revised higher, as was business investment in structures (commercial construction). We like to follow "core" real GDP, which excludes inventories, government purchases, and international trade. Inventories and government purchases are not representative of long-term growth, while the way trade is counted does a bad job of demonstrating that rising imports signal more purchasing power. Core GDP grew at a 2.1% annual rate in Q3, is up 2.2% from a year ago, and is up at a 3.0% annual rate in the past two years. Nominal GDP growth (real growth plus inflation) was revised to 3.8% annual rate in Q3 from a prior estimate of 3.5%. Nominal GDP is up 3.8% in the past year and up at a 4.8% annual rate in the past two years. All of these figures are well above where the Federal Reserve has set short-term interest rates, signaling that monetary policy is not tight and not an impediment to economic growth. Also in today's GDP report was our first glimpse at economy-wide corporate profits in the third quarter. Profits rose 0.2% in Q3 but were down 0.8% versus a year ago. The increase was driven by profits from domestic non-financial firms as well as from the rest of the world, while profits at domestic financial firms were down. Included in these numbers was a $6 billion reduction from legal settlements with Facebook and Google. Both after-tax profits and corporate cash flow with an adjustment for inventory valuation, which is a measure of the funds companies have available to invest, hit all-time record highs. Plugging economy-wide profits into our capitalized profits models suggest that, even at higher interest rates stocks are still relatively cheap.





3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-19	Q2-19	Q1-19	Q4-18	4-Quarter Change
Real GDP	**2.1%**	2.0%	3.1%	1.1%	2.1%
GDP Price Index	**1.8%**	2.4%	1.1%	1.6%	1.7%
Nominal GDP	**3.8%**	4.7%	3.9%	2.9%	3.8%
PCE	**2.9%**	4.6%	1.1%	1.4%	2.5%
Business Investment	**-2.7%**	-1.0%	4.4%	4.8%	1.3%
Structures	**-12.0%**	-11.1%	4.0%	-9.0%	-7.3%
Equipment	**-3.8%**	0.8%	-0.1%	7.4%	1.0%
Intellectual Property	**5.1%**	3.6%	10.9%	11.7%	7.8%
Contributions to GDP Growth (p.pts.)	**Q3-19**	**Q2-19**	**Q1-19**	**Q4-18**	**4Q Avg.**
PCE	**2.0**	3.0	0.8	1.0	1.7
Business Investment	**-0.4**	-0.1	0.6	0.6	0.2
Residential Investment	**0.2**	-0.1	0.0	-0.2	0.0
Inventories	**0.2**	-0.9	0.5	0.1	0.0
Government	**0.3**	0.8	0.5	-0.1	0.4
Net Exports	**-0.1**	-0.7	0.7	-0.4	-0.1

Source: Bureau or Economic Analysis