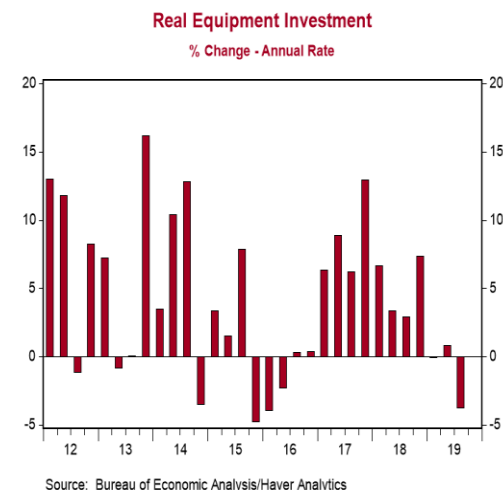
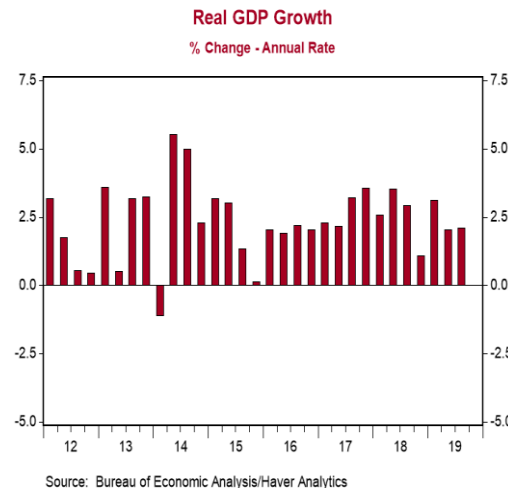


3rd Quarter GDP (Final)

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- Real GDP growth in Q3 was unrevised, coming in at a 2.1% annual rate, matching consensus expectations.
- An upward revision to consumer spending was offset by a downward revision to inventories.
- The largest positive contribution to the real GDP growth rate in Q3 came from consumer spending. The weakest component was business investment.
- The GDP price index was unrevised at a 1.8% annual rate. Nominal GDP growth – real GDP plus inflation – rose at a 3.8% annual rate. Nominal GDP is up 3.8% versus a year ago.

Implications: Today’s final GDP report for the third quarter showed the same moderate 2.1% annualized pace of growth that was estimated last month, but with a small decline now in corporate profits compared to the small increase in prior readings. The mix of revisions from the previous estimate were more positive. Consumer spending on services and commercial construction were revised slightly higher, while inventories were revised lower, which leaves more room for inventory growth in future quarters. “Core” real GDP, which strips out inventories, net exports, and government purchases, rose at a 2.3% annual rate in the third quarter and is up at a 3.0% annualized rate in the past two years. At present, we’re estimating that real GDP grew at around a 3.0% annual rate in Q4, although we get plenty of fresh data over the next month before the government releases its initial report on Q4. Today’s reading on growth, an unemployment rate at 3.5%, and inflation readings hovering around 2% all show no need for more rate cuts. Nominal GDP growth – real GDP growth plus inflation – is up 3.8% from a year ago, and up 4.8% annualized in the past two years, much too high for short-term interest rates below 2.0%. In addition to the solid growth rate in the economy, today’s report also provided a second look at economy-wide corporate profits. But unlike the GDP reading, corporate profits were revised lower. Profits declined 0.2% in Q3 compared to the previously estimated increase of 0.2%. Profits are down 1.2% in the past year. However, on an after-tax basis profits rose 0.6% in Q3 and are near the all-time high set a year ago. Plugging these data into our capitalized profits model suggests that, even with 10-year Treasury rates at 2.5% (compared to sub-2.0% rates today), stocks are still cheap. Economic growth in Q3 was respectable, and Q4 looks better.



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	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	3.1%	4.6%	1.1%	1.4%	2.6%
Business Investment	-2.3%	-1.0%	4.4%	4.8%	1.4%
Structures	-9.9%	-11.1%	4.0%	-9.0%	-6.7%
Equipment	-3.8%	0.8%	-0.1%	7.4%	1.0%
Intellectual Property	4.6%	3.6%	10.9%	11.7%	7.6%
Contributions to GDP Growth (p.pts.)	Q3-19	Q2-19	Q1-19	Q4-18	4Q Avg.
PCE	2.1	3.0	0.8	1.0	1.7
Business Investment	-0.3	-0.1	0.6	0.6	0.2
Residential Investment	0.2	-0.1	0.0	-0.2	0.0
Inventories	0.0	-0.9	0.5	0.1	-0.1
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 of Economic Analysis