Back in mid-November, the highly respected GDP forecasting model from the Atlanta Federal Reserve Bank (also known as “GDP Now”), estimated that real GDP would only grow at a 0.3% annual rate in the fourth quarter, which, if accurate, would have been the slowest growth for any quarter since 2015. At the time, we were forecasting economic growth at a 3.0% rate.

Now, nine days from the government’s first official report on Q4 GDP, the Atlanta Fed’s model is saying 1.8%, while we’re at 2.5%. In other words, they’ve moved a lot higher, we’ve moved a little lower. The consensus among economists is 2.1%, right between our forecast and the Atlanta Fed’s.

Here’s the thing: international trade and inventory figures are likely to have a huge impact on Q4 real GDP, with international trade a positive factor and inventories a negative. Trade relations with China were very volatile until recently, in part explaining a big drop in imports in Q4, which has a temporary positive influence on GDP. But, at the same time, fewer imports also meant less inventory accumulation in Q4.

We’re telling you this because the day before the GDP report next week, we will get reports on both trade and inventories, which might lead us to make a substantive revision up or down to our 2.5% forecast.

Either way, what’s most important is the trend, and we see healthy economic growth coming in 2020. Monetary policy is far from tight, companies are still adapting to a world where corporate profits earned in the US face lower tax rates, the regulatory environment has become more favorable, home building is poised to add to GDP, and consumer purchasing power (already strong) is growing.

Here’s how we get to our 2.5% real growth forecast for Q4:

**Consumption:** Car and light truck sales shrank at a 5.3% annual rate in Q4, while “real” (inflation-adjusted) retail sales outside the auto sector shrank at a 1.4% rate. So far, not so good. But most of consumer spending is on services, and it looks like real spending on services grew at a 2.4% rate. Take the good with the bad, and it suggests real personal consumption (of goods and services combined) grew at a 1.9% annual rate, contributing 1.3 points to the real GDP growth rate (1.9 times the consumption share of GDP, which is 68%, equals 1.3).

**Business Investment:** It looks like continued investment in equipment and intellectual property offset a contraction in commercial construction. Combined, business investment grew at a roughly 3.3% annual rate in Q4, which would add 0.4 points to real GDP growth. (3.3 times the 13% business investment share of GDP equals 0.4).

**Home Building:** Residential construction turned up in Q3, the first positive quarter since 2017. Look for another positive quarter in Q4, with growth at about a 2.7% annual rate, which would add 0.1 point to real GDP growth. (2.7 times the 4% residential construction share of GDP equals 0.1).

**Government:** Both national defense spending and public construction projects show solid growth in Q4, which means overall government purchases were probably up, as well. Looks like an increase at a 1.7% rate, which would add 0.3 points to the real GDP growth rate. (1.7 times the government purchase share of GDP, which is 18%, equals 0.3).

**Trade:** Signs suggest China trade-policy related volatility led to an unusually large drop in imports in Q4, which translates into a large increase in net exports (exports minus imports). At present, we’re projecting that net exports will add an unusually large 1.3 points to real GDP growth in Q4 but, as we mentioned above, this number could change dramatically with next week’s advance report on trade. Also, a big plus from net exports in Q4 may lead to a large negative in Q1 as trade tensions ease and imports return to a faster pace. Only time will tell.

**Inventories:** Inventories are also a huge wild card in Q4. As of now, we’re penciling in a drag on the real GDP growth rate of 0.9 points. After Q4, look for a rebound in the pace of inventory accumulation, which should add to economic growth in 2020.

Add it all up, and we get 2.5% annualized real GDP growth. Expect growth to average at least that pace in 2020, with our projection in the 2.5 to 3.0% range. There’s no recession on the way, and plenty of reason to believe better profits will see this bull market continue to run.

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Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.