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3rd Quarter GDP (Initial)

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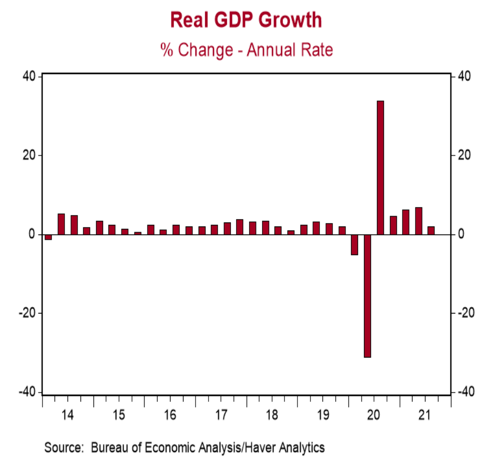
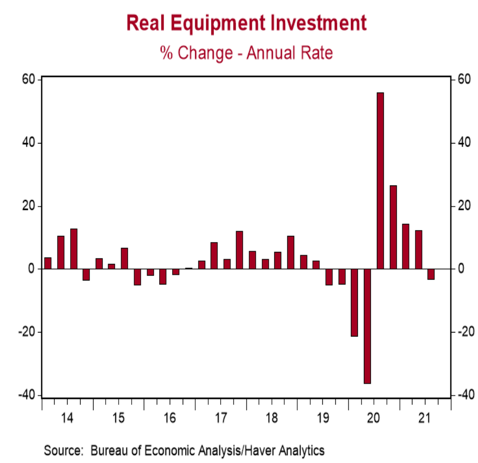
- Real GDP grew at a 2.0% annual rate in Q3, lagging the consensus expected 2.6%.
- The largest positive contributions to the real GDP growth rate in Q3 were inventories and personal consumption, with business investment in intellectual property and government purchases also making positive contributions. The largest drag on growth was net exports, with home building, business investment in equipment, and commercial construction also slowing.
- Personal consumption, business investment, and home building, combined, grew at a 1.1% annual rate in Q3.
- The GDP price index increased at a 5.7% annual rate in Q3 and is up 4.6% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 7.8% annual rate in Q3 and is up 9.6% from a year ago.





Implications: As we said in this week's Monday Morning Outlook, what Keynesianism giveth it eventually taketh away. Real GDP growth slowed substantially in the third quarter to a 2.0% annual rate, after 6.5% growth in the first half of the year when the federal government was passing out checks like they were going out of style. Like an opioid given to a crash victim, those checks temporarily helped cover up some economic pain. But the damage to the economy due to COVID-related shutdowns is not quickly going away and slow growth in the third quarter is the result. The oddest part of the 2.0% growth in Q3 was that inventories were the main driver, but not because they increased. Inventories fell in Q3, but they did so much more slowly than they did in Q2, resulting in being additive to real GDP. (Yes, we know that sounds weird, but that's how the GDP accounting works.) Consumer spending also rose in Q3, due to non-durables and services, even though spending on autos fell at a 53.9% annual rate. That drop in auto purchases is the steepest in more than 40 years and shows the economic damage from on-going supply-chain issues. Meanwhile, the US inflation problem should be clear. The last quarter that showed no affect from COVID was the fourth quarter of 2019. Since then, nominal GDP (real GDP growth plus inflation) is up at a 3.8% annual rate, very close to the pre-COVID trend. But real GDP is up at only a 0.8% rate, far below the pre-COVID trend. The difference is that GDP prices are up at a 3.1% annual rate, well above the pre-COVID trend. Less growth, more inflation, no bueno. Notably, GDP prices are up 4.6% in the past year, the largest increase since the early 1980s. These figures show that the Federal Reserve is behind the curve. It should have started, and finished, tapering by now. In addition, increases in short-term rates should already be under discussion. In other news this morning, initial unemployment claims fell 10,000 last week to 281,000. Continuing claims fell 137,000 to 2.243 million. These figures suggest much faster job growth in October than in August and September. Again, these data show the Fed has ample room to make monetary policy less loose.

3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-21	Q2-21	Q1-21	Q4-20	4-Quarter Change
Real GDP	**2.0%**	6.7%	6.3%	4.5%	4.9%
GDP Price Index	**5.7%**	6.1%	4.3%	2.2%	4.6%
Nominal GDP	**7.8%**	13.4%	10.9%	6.6%	9.6%
PCE	**1.6%**	12.0%	11.4%	3.4%	7.0%
Business Investment	**1.8%**	9.2%	12.9%	12.5%	9.0%
Structures	**-7.2%**	-3.0%	5.4%	-8.2%	-3.4%
Equipment	**-3.2%**	12.2%	14.1%	26.5%	11.9%
Intellectual Property	**12.2%**	12.5%	15.6%	10.2%	12.6%
Contributions to GDP Growth (p.pts.)	**Q3-21**	**Q2-21**	**Q1-21**	**Q4-20**	**4Q Avg.**
PCE	**1.1**	7.9	7.4	2.3	4.7
Business Investment	**0.2**	1.2	1.7	1.6	1.2
Residential Investment	**-0.4**	-0.6	0.6	1.3	0.2
Inventories	**2.1**	-1.3	-2.6	1.1	-0.2
Government	**0.1**	-0.4	0.8	-0.1	0.1
Net Exports	**-1.1**	-0.2	-1.6	-1.7	-1.1

Source: Bureau or Economic Analysis