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3rd Quarter GDP (Initial)

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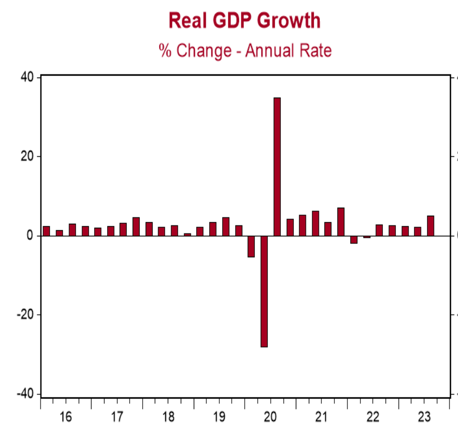
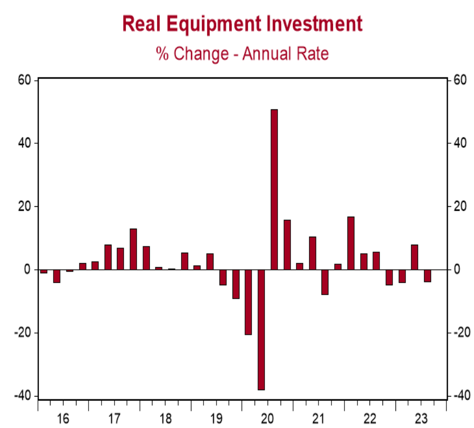
- Real GDP increased at a 4.9% annual rate in Q3, beating the consensus expected 4.5%.
- The largest positive contributions to real GDP growth in Q3 came from personal consumption, inventories, and government purchases. Other components of GDP were little changed.
- Personal consumption, business fixed investment, and home building, combined, rose at a 3.3% annual rate in Q3. We refer to this as "core" GDP.
- The GDP price index increased at a 3.5% annual rate in Q3 and is up 3.2% from a year ago. Nominal GDP (real GDP plus inflation) rose at an 8.5% annual rate in Q3 and is up 6.3% from a year ago.





Source: Bureau of Economic Analysis/Haver Analytics

Implications: The economy soared in the third quarter, but don't get used to it. Real GDP grew at a 4.9% annual rate in Q3. Excluding the re-opening from COVID in 2020-21, that's the fastest growth rate for any quarter since 2014. Real GDP is now up 2.9% from a year ago. Consumer spending led the way in Q3 itself, growing at a 4.0% annual rate. In addition, the economy was bolstered by a faster pace of inventory accumulation as well as an ongoing surge in government purchases. We like to focus on "Core" GDP, which includes consumer spending, business fixed investment, and home building, while excluding government purchases, inventories, and international trade, all of which are very volatile from quarter to quarter. Core GDP increased at a healthy 3.3% annual rate in Q3. However, not all the GDP news was good and we still think the US economy is headed for a recession by sometime next year. Business fixed investment declined slightly in the third quarter, led by equipment. Given higher short-term interest rates and tighter monetary policy, companies should become more reluctant to invest in the year ahead. Why take on more risk when companies can earn a solid return by saving in low-risk securities? Meanwhile, the surge in government purchases in the past year should soon abate as the federal deficit is on an unsustainable course. In addition, businesses are unlikely to continue accumulating inventories at the fast pace of Q3. On top of that, consumer purchasing power is running into headwinds due to the depletion of COVID-stimulus related savings as well as slow growth in workers' earnings, which, due to high inflation, are barely above the pre-COVID level on an hourly basis. Notably, inflation remained a big problem in Q3, with GDP prices up at a 3.5% annual rate. We think investors are underestimating the odds of the Federal Reserve raising short-term rates at least one more time by early next year. Nominal GDP is up 6.3% from a year ago, but that's a deceleration from the 9.1% pace in the year ending in the third quarter of 2022 and, given tighter money, we are likely to see further deceleration in the year ahead.

3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-23	Q2-23	Q1-23	Q4-22	4-Quarter Change
Real GDP	4.9%	2.1%	2.2%	2.6%	2.9%
GDP Price Index	3.5%	1.7%	3.9%	3.9%	3.2%
Nominal GDP	8.5%	3.8%	6.3%	6.5%	6.3%
PCE	4.0%	0.8%	3.8%	1.2%	2.4%
Business Investment	-0.1%	7.4%	5.7%	1.7%	3.7%
Structures	1.6%	16.1%	30.3%	6.5%	13.1%
Equipment	-3.8%	7.7%	-4.1%	-5.0%	-1.4%
Intellectual Property	2.6%	2.7%	3.8%	6.1%	3.8%
Contributions to GDP Growth (p.pts.)	**Q3-23**	**Q2-23**	**Q1-23**	**Q4-22**	**4Q Avg.**
PCE	2.7	0.6	2.5	0.8	1.6
Business Investment	0.0	1.0	0.8	0.2	0.5
Residential Investment	0.2	-0.1	-0.2	-1.2	-0.3
Inventories	1.3	0.0	-2.2	1.6	0.2
Government	0.8	0.6	0.8	0.9	0.8
Net Exports	-0.1	0.0	0.6	0.3	0.2

Source: Bureau or Economic Analysis