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3rd Quarter GDP (Initial)

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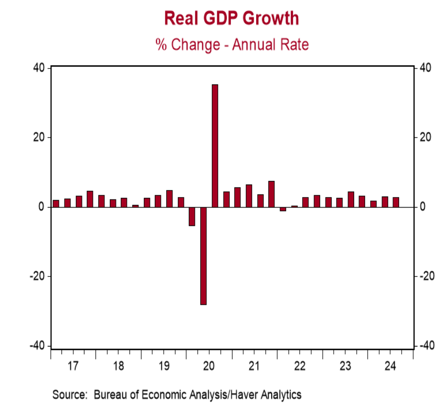
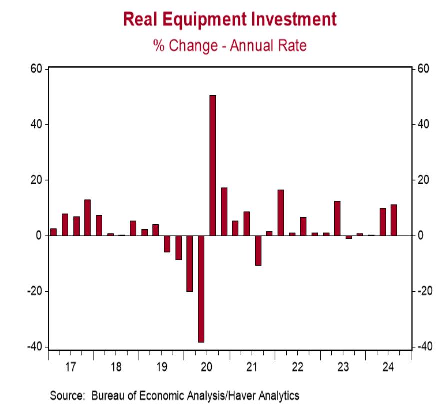
- Real GDP increased at a 2.8% annual rate in Q3, narrowly lagging the consensus expected 2.9%.
- The largest positive contribution to real GDP growth in Q3 came from personal consumption, with large gains as well for government purchases and business investment in equipment. Net exports were the largest drag on growth, with other drags from home building, inventories, and commercial construction.
- Personal consumption, business fixed investment, and home building, combined, rose at a 3.2% annual rate in Q3. We refer to this as "core" GDP.
- The GDP price index increased at a 1.8% annual rate in Q3 and is up 2.2% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 4.7% annual rate in Q3 and is up 4.9% from a year ago.





Implications: The US economy continued to grow at a solid pace in the third quarter. Real GDP rose at a 2.8% annual rate and is up 2.7% from a year ago, with the vast majority of the growth accounted for by an increase in consumer spending. Perhaps the best news was that business investment in equipment grew at an 11.1% annual rate and is up 5.4% from a year ago (likely AI and chip related). However, we can't but notice the abnormally large contribution from government spending in the third quarter, mostly from the federal government, without which real GDP would only have grown at a 2.0% rate. This is not a brand-new phenomenon, either. While real GDP is up 2.7% in the past year, it'd be up only 2.1% excluding a major surge in government spending. Eventually the rapid growth in government has to end, and the economy will pay a price. In addition, there are other reasons to think the growth of the US economy may slow in the year ahead and the risk of a recession has not gone away. The personal saving rate, the share of after-tax income that consumers did not spend in Q3 was 4.8%, well below the roughly 7.0% pace of personal saving in the year prior to COVID. Given that extra COVID savings (due to extra government spending) are now running dry, if consumers increase the saving rate back to the pre-COVID norm, consumer spending growth will slow and the businesses that have invested and structured themselves to sell to them will be in for some pain. Meanwhile, the tightening of monetary policy over the last couple of years has not yet had its full effect. GDP prices were up at a modest 1.8% annual rate in Q3 and up 2.2% from a year ago, showing some of the impact of tighter money, although we are not yet consistently at the Federal Reserve's 2.0% target. Nominal GDP – real GDP growth plus inflation – rose at a 4.7% pace in Q3 and is up 4.9% from a year ago, suggesting some modest room for the Federal Reserve to cut short-term rates from here. In other news this morning, the ADP employment report showed private payrolls rose a solid 233,000 in October. However, we think storms and strikes, which ADP accounts for differently than the government, will hold down the official Labor Department report (to be released Friday) to a gain of 101,000 in nonfarm payrolls while the unemployment rate remains at 4.1%. In other recent news, the national Case-Shiller index and the FHFA index showed the exact same results for home prices, up 0.3% in August and up 4.2% in the past year. We expect continued modest gains in home prices in the year ahead given a shortage of housing around the country.

3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-24	Q2-24	Q1-24	Q4-23	4-Quarter Change
Real GDP	2.8%	3.0%	1.6%	3.2%	2.7%
GDP Price Index	1.8%	2.5%	3.0%	1.5%	2.2%
Nominal GDP	4.7%	5.6%	4.7%	4.8%	4.9%
PCE	3.7%	2.8%	1.9%	3.5%	3.0%
Business Investment	3.3%	3.9%	4.5%	3.8%	3.9%
Structures	-4.1%	0.2%	6.2%	6.5%	2.1%
Equipment	11.1%	9.9%	0.3%	0.7%	5.4%
Intellectual Property	0.6%	0.7%	7.5%	5.2%	3.5%
Contributions to GDP Growth (p.pts.)	**Q3-24**	**Q2-24**	**Q1-24**	**Q4-23**	**4Q Avg.**
PCE	2.5	1.9	1.3	2.3	2.0
Business Investment	0.5	0.5	0.6	0.5	0.5
Residential Investment	-0.2	-0.1	0.5	0.1	0.1
Inventories	-0.2	1.1	-0.5	-0.5	0.0
Government	0.9	0.5	0.3	0.6	0.6
Net Exports	-0.6	-0.9	-0.6	0.1	-0.5

Source: Bureau of Economic Analysis