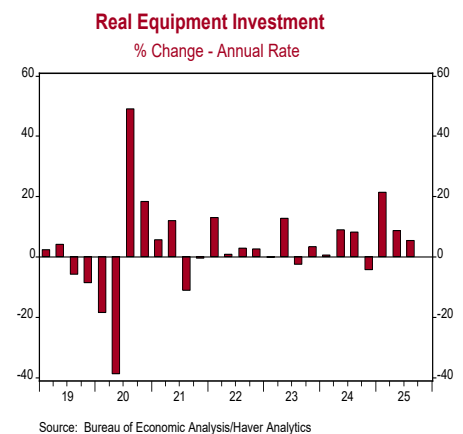
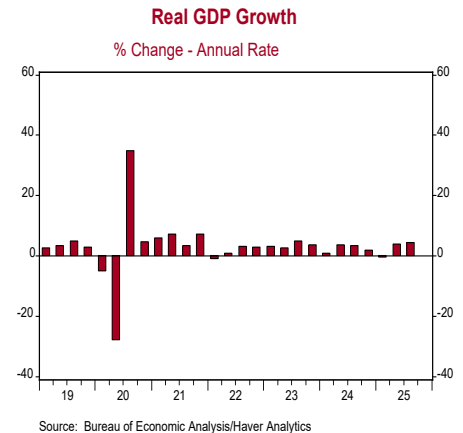


3rd Quarter GDP (Initial)

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- Real GDP increased at a 4.3% annual rate in Q3, beating the consensus expected +3.3%.
- The largest positive contributions to real GDP growth in Q3 came from personal consumption and net exports. Other positive contributors were government purchases, as well as business investment in intellectual property and equipment. Inventories, home building, and commercial construction were all small drags on growth.
- Personal consumption, business fixed investment, and home building, combined, rose at a 3.0% annual rate in Q3. We refer to this as “core” GDP.
- The GDP price index increased at a 3.8% annual rate in Q3 and is up 3.0% from a year ago. Nominal GDP (real GDP plus inflation) rose at an 8.2% annual rate in Q3 and is up 5.4% from a year ago.

Implications: Economic growth was very strong in the third quarter, but not quite as strong as the headline annual growth rate of 4.3% suggests. We like to follow Core Real GDP, which includes consumer spending, business fixed investment, and home building, and excludes more volatile categories like government purchases, inventories, and international trade. Core Real GDP grew at a 3.0% annual rate in the third quarter and was up 2.6% versus a year ago. Those figures are both very close to the 2.8% growth rate in Core GDP since the pre-COVID peak (at the end of 2019). Even if you take the headline 4.3% growth rate of overall real GDP at face value, real GDP is up 2.3% from a year ago, which is slightly below the growth rate of 2.4% since the pre-COVID peak. That said, we don’t want to sound dismissive about solid economic growth. The 4.3% growth rate in Q3 was achieved in spite of a continued decline in inventories, a decline that likely ended in Q4, meaning continued economic growth, at least for the time being. In addition, business investment in equipment rose for the third straight quarter, which could help lift productivity growth. Meanwhile, corporate profits rose 4.2% in the third quarter and are up 9.1% from a year ago. (Adjusting for losses at the Federal Reserve, corporate profits were up 3.9% in Q3 and are up 7.2% from a year ago.) But here’s the bad news. Even with record high profits, plugging the current range for long-term interest rates into our Capitalized Profits Model suggests the S&P 500 is still substantially overvalued. And, in the meantime, the Federal Reserve needs to be careful about reducing short-term rates. GDP Prices rose at a 3.8% annual rate in Q3 and are up 3.0% from a year ago. Nominal GDP – real GDP growth plus inflation – was up at an 8.2% annual rate in Q3 and is up 5.4% from a year ago. These figures suggest the Fed should pause rate cuts for the time being, unless and until there is more evidence that inflation is heading back down toward its 2.0% target.



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-25	Q2-25	Q1-25	Q4-24	4-Quarter Change
Real GDP	4.3%	3.8%	-0.6%	1.9%	2.3%
GDP Price Index	3.8%	2.1%	3.6%	2.4%	3.0%
Nominal GDP	8.2%	6.0%	2.9%	4.3%	5.4%
PCE	3.5%	2.5%	0.6%	3.9%	2.6%
Business Investment	2.8%	7.3%	9.5%	-3.7%	3.9%
Structures	-6.3%	-7.5%	-3.1%	-8.0%	-6.3%
Equipment	5.4%	8.5%	21.3%	-4.2%	7.4%
Intellectual Property	5.4%	15.0%	6.5%	-0.6%	6.4%
Contributions to GDP Growth (p.pts.)	Q3-25	Q2-25	Q1-25	Q4-24	4Q Avg.
PCE	2.4	1.7	0.4	2.6	1.8
Business Investment	0.4	1.0	1.2	-0.5	0.5
Residential Investment	-0.2	-0.2	0.0	0.2	-0.1
Inventories	-0.2	-3.4	2.6	-0.9	-0.5
Government	0.4	0.0	-0.2	0.6	0.2
Net Exports	1.6	4.8	-4.7	-0.1	0.4

Source: Bureau of Economic Analysis