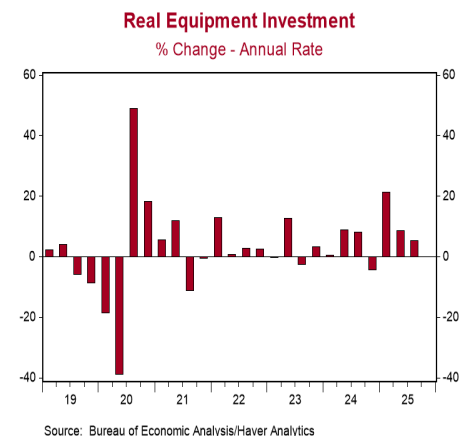
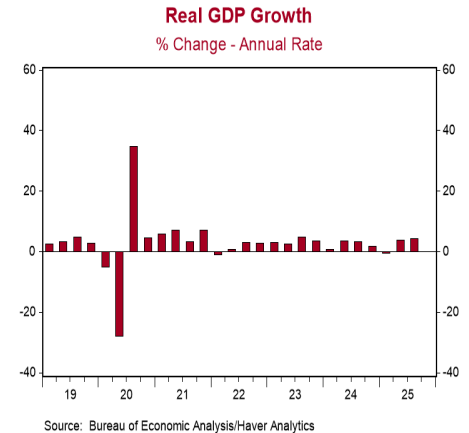


3rd Quarter GDP (Final)

Nate Gerze – Economist
 Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist

- Real GDP growth in Q3 was revised higher to a 4.4% annual rate, beating the consensus expected 4.3%.
- Upward revisions to inventories, business investment, and net exports more than offset small downward revisions to home building and personal consumption.
- The largest positive contributions to the real GDP growth rate in Q3 were consumer spending and net exports. The weakest component was home building.
- The GDP price index was unrevised at a 3.8% annual rate. Nominal GDP growth – real GDP plus inflation – was revised upward to an 8.3% annualized rate from a prior estimate of 8.2%.

Implications: The economy was on firm footing in the third quarter, with real GDP up at a 4.4% annual rate, an upward revision versus the prior estimate of 4.3%. Upward revisions to inventories, business investment (primarily structures), and net exports were enough to fully offset downward revisions to home building and consumer spending on services. The 4.4% annual growth rate in Q3 is the fastest quarterly pace in two years, but the details are not quite as strong as the headline suggests. For a better gauge of sustainable growth, we look at “core” GDP—consumer spending, business fixed investment, and home building—while excluding the more volatile categories like government, inventories, and trade. Core GDP grew at a 2.9% annual rate in Q3, slightly below the prior estimate of 3.0%, and up 2.6% from 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 4.4% 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. More notable were corporate profits: the second look at Q3 profits showed solid growth of 4.5% from Q2 (versus a previous estimate of +4.2%) with a 9.3% gain versus a year ago. Adjusting for losses at the Federal Reserve, corporate profits were up 4.1% in Q3 and are up 7.5% from a year ago. Real Gross Domestic Income, an alternative to Real GDP that is just as accurate over time, rose at a 2.4% rate in Q3 and is up 2.4% from a year ago. Good, but not as fast as the growth in Real GDP. 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 8.3% annual rate in Q3 and up 5.4% from a year ago. In labor news this morning, initial jobless claims rose 1,000 last week to 200,000 while continuing claims declined 26,000 to 1.875 million. Taken altogether, these figures suggest the Fed will pause rate cuts at the meeting next week as they wait for more evidence of a deteriorating labor market or that inflation is heading back down toward its 2.0% target.



3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-25	Q2-25	Q1-25	Q4-24	4-Quarter Change
Real GDP	4.4%	3.8%	-0.6%	1.9%	2.3%
GDP Price Index	3.8%	2.1%	3.6%	2.4%	3.0%
Nominal GDP	8.3%	6.0%	2.9%	4.3%	5.4%
PCE	3.5%	2.5%	0.6%	3.9%	2.6%
Business Investment	3.2%	7.3%	9.5%	-3.7%	4.0%
Structures	-5.0%	-7.5%	-3.1%	-8.0%	-5.9%
Equipment	5.2%	8.5%	21.3%	-4.2%	7.3%
Intellectual Property	5.6%	15.0%	6.5%	-0.6%	6.5%
Contributions to GDP Growth (p.pts.)	Q3-25	Q2-25	Q1-25	Q4-24	4Q Avg.
PCE	2.3	1.7	0.4	2.6	1.8
Business Investment	0.4	1.0	1.2	-0.5	0.5
Residential Investment	-0.3	-0.2	0.0	0.2	-0.1
Inventories	-0.1	-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