

3rd Quarter GDP (Initial)

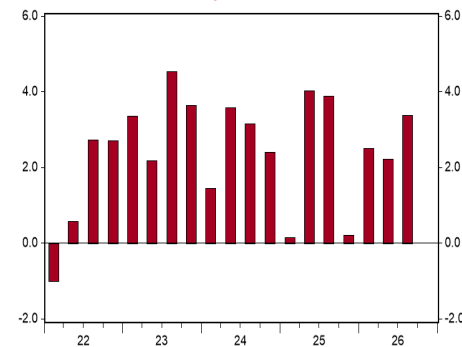
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- Real GDP increased at a 3.4% annual rate in Q3, beating the consensus expected 3.2%.
- The largest positive contributions to real GDP growth in Q3 came from personal consumption, business investment, inventories, and government purchases. The largest drag on growth, by far, was net exports, along with a small decline for home building.
- Personal consumption, business fixed investment, and home building, combined, rose at a 4.9% annual rate in Q2. We refer to this as “core” GDP.
- The GDP price index increased at a 2.3% annual rate in Q3 and is up 3.7% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 5.6% annual rate in Q3 and is up 5.9% from a year ago.

Implications: Real GDP grew at a solid 3.4% annual rate in Q3, close to the consensus expected 3.2%, with details that were even stronger than the headline. Personal spending was the key driver for economic growth in the third quarter, growing at a 3.8% rate, well above its 2.5% increase in the past year. However, the AI/data center build-out also remains a very important factor. Data center construction grew at a 127% rate, business investment in information processing equipment grew at a 37.3% pace, investment in software grew at a 9.6% rate, and R&D was up at a 7.6% pace. This surge in investment has also led to a significant increase in imports of technology-related equipment. As a result, net exports were a significant drag on growth in Q3, subtracting 3.3 percentage points from real GDP, the largest drag from this category since 1947, other than the tariff front-running of Q1 2025. Meanwhile, growth from inventories and government purchases added an unusually large 2.5 percentage points to growth, providing a temporary boost that is unlikely to continue over the next year. The best news in today’s report was that 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 – grew at a 4.9% rate in the third quarter, the fastest pace in more than five years, and is now up 3.3% from a year ago. There is reason to believe Core GDP will remain elevated given that the AI investment boom has shown no signs of slowing, but the above-trend growth in consumption suggests the Q3 increase in Real GDP may not signal a new trend to higher growth. The jury is still out. And with the AI investment boom showing no signs of slowing down, there is reason to believe Core GDP will remain strong in the quarters ahead. In the meantime, inflation trended lower in the third quarter, with GDP prices up at a 2.3% rate in Q3, down from a 6.1% rate in Q2, but still up 3.7% from a year ago. As a result, nominal GDP rose at a 5.6% pace in Q3 and is up 5.7% annualized in the past two years, which suggests the Federal Reserve has room to raise its federal funds target rate from the current level of 3.875%. In other news this morning, new claims for unemployment insurance declined 1,000 last week to a very low 194,000. Continuing claims declined 21,000 to 1.701 million. These figures suggest moderate payroll growth in October.

Real GDP Growth

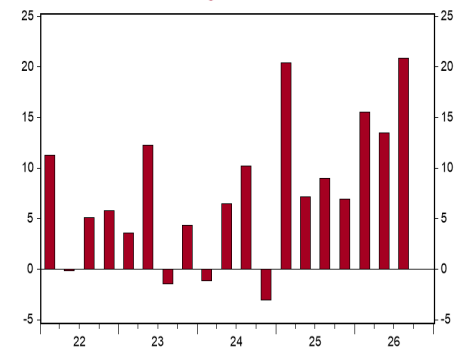
% Change - Annual Rate



Source: Bureau of Economic Analysis/Haver Analytics

Real Equipment Investment

% Change - Annual Rate



Source: Bureau of Economic Analysis/Haver Analytics

3rd Quarter GDP		Q3-26	Q2-26	Q1-26	Q4-25	4-Quarter Change
Seasonally Adjusted Annual Rates						
Real GDP		3.4%	2.2%	2.5%	0.2%	2.1%
GDP Price Index		2.3%	6.1%	3.2%	3.4%	3.7%
Nominal GDP		5.6%	8.5%	5.8%	3.7%	5.9%
PCE		3.8%	3.8%	0.7%	1.9%	2.5%
Business Investment		12.7%	9.0%	9.9%	2.1%	8.4%
Structures		5.4%	0.1%	-9.4%	-9.8%	-3.6%
Equipment		20.9%	13.4%	15.5%	6.9%	14.1%
Intellectual Property		8.4%	9.2%	15.6%	4.4%	9.3%
Contributions to GDP Growth (p.pts.)		Q3-26	Q2-26	Q1-26	Q4-25	4Q Avg.
PCE		2.5	2.5	0.5	1.3	1.7
Business Investment		1.8	1.3	1.4	0.3	1.2
Residential Investment		-0.1	0.1	-0.3	-0.1	-0.1
Inventories		1.6	-0.5	0.2	0.0	0.3
Government		0.9	0.0	0.8	-1.0	0.2
Net Exports		-3.3	-1.1	0.0	-0.3	-1.2

Source: Bureau of Economic Analysis