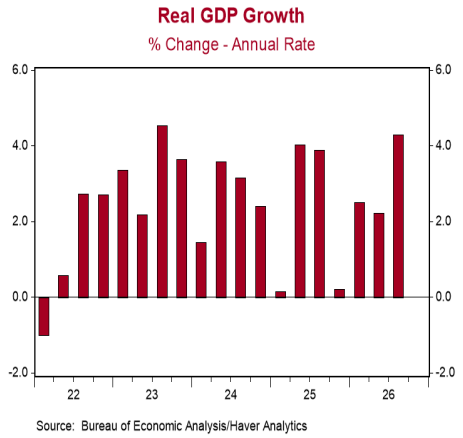
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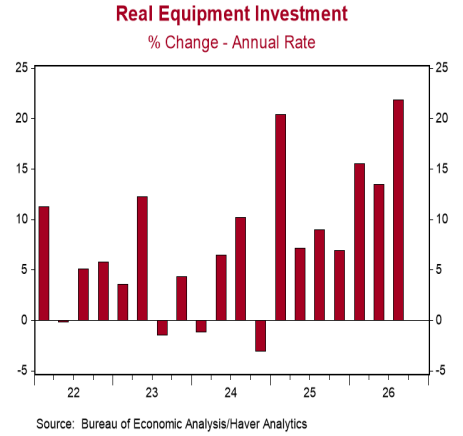
3rd Quarter GDP (Preliminary)

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- Real GDP growth in Q3 was revised higher to a 4.3% annual rate from a prior estimate of 3.4%, easily beating the consensus expected 3.5%.
- Upward revisions to business investment, personal consumption, net exports, and government purchases more than offset a small downward revision to home building.
- Personal consumption, business investment, and home building, combined, rose at a 5.8% annual rate in Q3. We refer to this as "core" GDP.
- The GDP price index was revised lower to 1.9% from a prior estimate of 2.3%. Nominal GDP growth – real GDP plus inflation – was revised upward to a 6.2% annualized rate from a prior estimate of 5.6%.



Source: Bureau of Economic Analysis/Haver Analytics



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Implications: Hold off on GDP for a moment. The most important data in this morning's report was on economy-wide corporate profits, which increased 4.4% in the third quarter and are now up 21.3% from a year ago. Excluding profits earned by the Federal Reserve, corporate profits were up 19.5% from a year ago. Besides the early recovery from COVID, that's the fastest growth in profits since 2011-12. The increase in Q3 was led by a 6.4% increase in profits earned from domestic non-financial industries. Profits from domestic financial companies rose 1.1%, while profits from the rest of the world declined 1.6%. Despite the rapid growth in recent quarters, plugging these profits into our Capitalized Profits Model suggests stocks remain overvalued. Now back to GDP and the rest of this morning's report. Real GDP for the third quarter was revised higher to a 4.3% annualized rate from a previously reported +3.4%, driven by large upward revisions for business investment in intellectual property and personal consumption for goods, which more than offset a small downward revision to home building. Smaller upward revisions to net exports and government purchases provided an additional boost. For a clearer picture of underlying growth, we focus on "core" GDP – consumer spending, business fixed investment, and residential construction – excluding more volatile components like inventories, government outlays, and trade. Core GDP was revised higher to a 5.8% annual rate from an initial 4.9%, the fastest pace in five years, and is now up 3.5% from a year ago. So why did headline GDP grow much slower than Core GDP? First, business investment makes up a larger share of Core GDP than overall GDP and has been exceptionally strong, growing at a 16.1% annualized rate in Q3, the fastest pace outside of the early recovery from COVID since 2011. Second, trade continues to move in volatile swings, shaving off 3.2 percentage points from the headline in Q3. Taken together, this may be a sign that much of the investment going into the AI buildout is being spent on imported goods. The best news in the report was that inflation for the quarter was revised below the Fed's 2.0% target, with GDP prices rising at a 1.9% rate versus the initially reported +2.3%. However, they are still up 3.6% from a year ago and look like they are running hot in Q4. In other news this morning, initial jobless claims last week declined by 13,000 to 189,000; continuing claims fell 95,000 to 1.697 million. These figures suggest job growth continues in November.

3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-26	Q2-26	Q1-26	Q4-25	4-Quarter Change
Real GDP	4.3%	2.2%	2.5%	0.2%	2.3%
GDP Price Index	1.9%	6.1%	3.2%	3.4%	3.6%
Nominal GDP	6.2%	8.5%	5.8%	3.7%	6.0%
PCE	4.2%	3.8%	0.7%	1.9%	2.6%
Business Investment	16.1%	9.0%	9.9%	2.1%	9.2%
Structures	9.6%	0.1%	-9.4%	-9.8%	-2.7%
Equipment	21.8%	13.4%	15.5%	6.9%	14.3%
Intellectual Property	13.6%	9.2%	15.6%	4.4%	10.6%
Contributions to GDP Growth (p.pts.)	**Q3-26**	**Q2-26**	**Q1-26**	**Q4-25**	**4Q Avg.**
PCE	2.8	2.5	0.5	1.3	1.8
Business Investment	2.2	1.3	1.4	0.3	1.3
Residential Investment	-0.1	0.1	-0.3	-0.1	-0.1
Inventories	1.6	-0.5	0.2	0.0	0.3
Government	1.0	0.0	0.8	-1.0	0.2
Net Exports	-3.2	-1.1	0.0	-0.3	-1.2

Source: Bureau of Economic Analysis

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.