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Third Quarter GDP (Advance)

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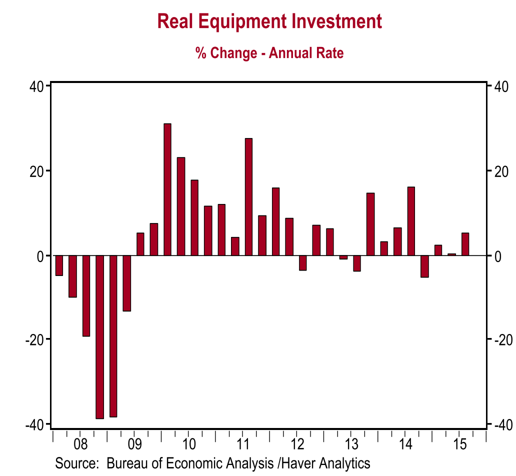
- The first estimate for Q3 real GDP growth is 1.5% at an annual rate, almost exactly the 1.6% the consensus expected. Real GDP is up 2.0% from a year ago.
- The largest positive contribution to the Q3 real GDP growth rate was consumer spending. The largest drag was inventories.
- Personal consumption, business investment, and home building were all positive in Q3, growing at a combined rate of 3.2% annualized. Combined, they are up 3.3% in the past year and up at a 3.4% annual rate in the past two years.
- The GDP price index increased at a 1.2% annual rate in Q3. Nominal GDP – real GDP plus inflation – rose at a 2.7% rate in Q3, is up 2.9% from a year ago, and up at a 3.8% annual rate from two years ago.



Implications: Real GDP growth came in pretty much exactly as the consensus expected in the third quarter and shouldn't change anyone's thinking about where the economy is headed. More than six years into an expansion, the economy remains a Plow Horse. Real GDP grew at a 1.5% annual rate in Q3, with robust growth in consumer spending but much less inventory accumulation than in recent quarters. We follow something we call "core GDP," which is real GDP growth after excluding inventories, international trade, and government purchases, none of which can be counted on for long-term growth. What's left is consumer spending, business investment, and home building. Core GDP grew at a 3.2% annual rate in Q3, is up 3.3% from a year ago, and is up at a 3.4% rate in the past two years. Meanwhile, nominal GDP – real GDP growth plus inflation – still signals that monetary policy is too loose. Nominal GDP grew at a 2.7% rate in Q3, is up 2.9% from a year ago, and up at a 3.8% rate in the past two years, very close to the Federal Reserve's long-term projection of 4%. No wonder a December rate hike is back on the table. The idea of raising short-term rates when real GDP has been so tepid by historical standards seems odd to some. But much higher levels of government spending, particularly transfer payments to persons, have reduced the growth potential of the US economy and monetary policy can't make up for bad fiscal policy. Rather than focusing on the Fed, policymakers ought to focus on cutting spending and deregulating the economy, particularly the energy and health care sectors. In other news this morning, new claims for unemployment insurance ticked up only 1,000 last week to 260,000. The four-week moving average is 259,000, the lowest since 1973 (right after the Mets and Willie Mays lost the World Series to the Oakland As). Continuing claims for regular state benefits dropped 37,000 to 2.144 million. It's still early, but plugging these data into our models suggests October payrolls will be up about 235,000. On the housing front, pending home sales, which are contracts on existing homes, declined 2.3% in September after slipping 1.4% in August. These reports suggest that existing home sales, which are counted at closing, will drop back in October after soaring in September.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q3-15	Q2-15	Q1-15	Q4-14	4-Quarter Change
Real GDP	**1.5%**	3.9%	0.6%	2.1%	2.0%
GDP Price Index	**1.2%**	2.1%	0.1%	0.1%	0.9%
Nominal GDP	**2.7%**	6.1%	0.8%	2.2%	2.9%
PCE	**3.2%**	3.6%	1.7%	4.3%	3.2%
Business Investment	**2.1%**	4.1%	1.6%	0.7%	2.1%
Structures	**-4.0%**	6.3%	-7.4%	4.2%	-0.4%
Equipment	**5.3%**	0.3%	2.3%	-4.9%	0.7%
Intellectual Property	**1.8%**	8.3%	7.4%	6.9%	6.1%
Contributions to GDP Growth (p.pts.)	**Q3-15**	**Q2-15**	**Q1-15**	**Q4-14**	**4Q Avg.**
PCE	**2.2**	2.4	1.2	2.9	2.2
Business Investment	**0.3**	0.5	0.2	0.1	0.3
Residential Investment	**0.2**	0.3	0.3	0.3	0.3
Inventories	**-1.4**	0.0	0.9	0.0	-0.1
Government	**0.3**	0.5	0.0	-0.3	0.1
Net Exports	**0.0**	0.2	-1.9	-0.9	-0.7