

## More #PlowHorse in Q3

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Despite the shutdown, the sequester, talk of tapering, and meteors in the night sky, the US economy just keeps plowing along. Reported later this week, we expect Q3 real GDP grew right on trend at a 1.9% rate – another, #PlowHorse report.

It's somewhat slower than we expected at the start of the year, but we still expect an acceleration in 2014-15 given loose monetary policy, a downward trend in government spending (relative to GDP), explosive new technology, record high corporate profits, and a forceful housing recovery.

Here's our "add-em-up" calculation of real GDP growth in Q3, component by component.

**Consumption:** Auto sales were up at a 5% annual rate in Q3, while "real" (inflation-adjusted) retail sales ex-autos were up at a 1.4% rate. But services make up about 2/3 of personal consumption and, on a real basis, they appear to be unchanged. As a result, it looks like real personal consumption of goods and services combined, grew at a 1.3% annual rate in Q3, contributing 0.9 points to the real GDP growth rate (1.3 times the consumption share of GDP, which is 69%, equals 0.9).

**Business Investment:** Business equipment investment shrank at a 1.5% annual rate in Q3 while commercial building expanded at a 10% pace. Assuming R&D grew at a trend 2.5%

rate, overall business investment grew at a 2.3% rate, which should add 0.3 points to the real GDP growth rate (2.3 times the 12% business investment share of GDP equals 0.3).

**Home Building:** The housing rebound continued in Q3, growing at about a 6.5% annual rate. This translates into 0.3 points for the real GDP growth rate (6.5 times the home building share of GDP, which is 3%, equals 0.2).

**Government:** Military spending picked up in Q3 and state/local government construction projects have turned the corner. On net, we estimate real government purchases grew at a 1% rate in Q3, which should add 0.2 percentage points to real GDP growth (1 times the government purchase share of GDP, which is 19%, equals 0.2).

**Trade:** At this point, the government only has trade data through August. On average, the "real" trade deficit in goods has contracted compared to Q2. As a result, we're forecasting net exports added 0.2 points to the real GDP growth rate.

**Inventories:** With data only through August, it appears companies were accumulating inventories slightly faster in Q3 than Q2, adding 0.1 point to the real GDP growth rate.

Add-em-up and you get 1.9% for Q3. The economy ain't gonna win any races, but it ain't keeling over and dying either.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-4 / 9:00 am	Factory Orders – Aug	+0.3%	<b>+0.3%</b>	-0.1%	-2.7%
9:00 am	Factory Orders – Sep	+1.7%	<b>+1.7%</b>	+1.7%	NA
11-5 / 9:00 am	ISM Non Mfg Index – Oct	54.5	<b>55.5</b>		54.4
11-6 / 9:00 am	Leading Indicators – Sep	+0.7%	<b>+0.7%</b>		+0.7%
11-7 / 7:30 am	Initial Claims – Nov 2	335K	<b>335K</b>		340K
7:30 am	Q3 GDP Advance Report	2.0%	<b>1.9%</b>		2.5%
7:30 am	Q3 GDP Chain Price Index	1.4%	<b>1.7%</b>		0.6%
2:00 pm	Consumer Credit– Sep	\$12.0 Bil	<b>\$13.5 Bil</b>		\$13.6 Bil
11-8 / 7:30 am	Non-Farm Payrolls – Oct	120K	<b>80K</b>		148K
7:30 am	Private Payrolls – Oct	128K	<b>125K</b>		126K
7:30 am	Manufacturing Payrolls – Oct	5K	<b>4K</b>		2K
7:30 am	Unemployment Rate – Oct	7.3%	<b>7.3%</b>		7.2%
7:30 am	Average Hourly Earnings – Oct	+0.2%	<b>+0.2%</b>		+0.1%
7:30 am	Average Weekly Hours – Oct	34.4	<b>34.5</b>		34.5
7:30 am	Personal Income – Sep	+0.3%	<b>+0.3%</b>		+0.4%
7:30 am	Personal Spending – Sep	+0.2%	<b>+0.2%</b>		+0.3%
8:55 am	U. Mich Consumer Sentiment- Nov	75.0	<b>75.0</b>		73.2