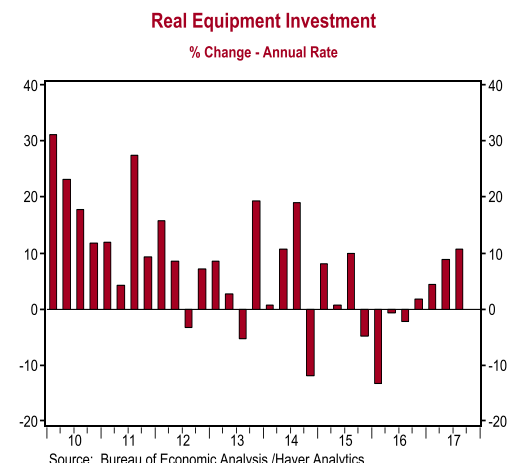
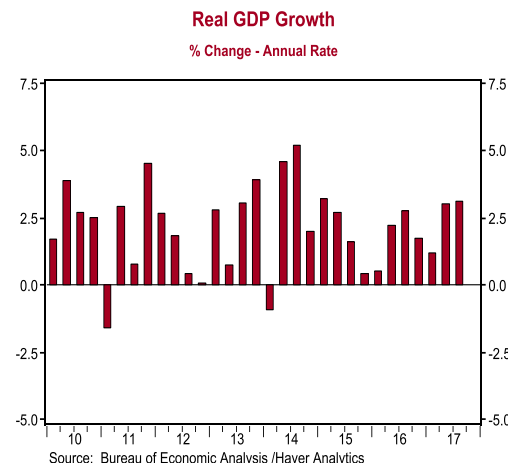


# 3<sup>rd</sup> Quarter GDP (Final)

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- Real GDP growth in Q3 was revised to a 3.2% annual rate from a prior estimate of 3.3%, coming in slightly below the consensus expected 3.3%.
- The downward revision was due to weaker personal consumption. Other categories were either unchanged or changed only slightly.
- The largest positive contribution to the real GDP growth rate in Q3 came from consumer spending. The weakest component of real GDP was residential investment.
- The GDP price index was unrevised at a 2.1% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised down to a 5.3% annual rate versus a prior estimate of 5.5%. Nominal GDP is up 4.1% versus a year ago and up at a 3.4% annual rate in the past two years.

**Implications:** Today’s final GDP report for the third quarter had real economic growth at a 3.2% annual rate, slightly below consensus expectations, but still the fastest growth in more than two years and the second consecutive quarter of 3%+ real growth. The slight downward revision was primarily due to personal consumption, which grew 2.2% in the third quarter versus a prior estimate of 2.3%. All other categories were either unchanged, or changed very slightly. Corporate profits also saw little change from prior estimates, rising 4.3% in Q3 and up 5.4% from a year ago. Plugging the new profits data into our capitalized profits model suggests US equities remain cheap, not only at today’s interest rates but even using a 10-year Treasury yield of 3.5%. And while corporate profits data are reported with a lag, we expect that tax reform and regulatory relief will be a tailwind for profits in the quarters ahead. In terms of monetary policy, the Fed should see today’s report as a confirmation that they made the right decision to raise short-term rates earlier this month. Nominal GDP growth (real growth plus inflation) was revised to a still healthy 5.3% annual rate in Q3 from a prior estimate of 5.5%, is up 4.1% in the past year, and up at a 3.4% annual rate in the past two years, leaving the Fed plenty of room for rate hikes in 2018. In other news this morning, the Philly Fed Index, a measure of sentiment among East Coast manufacturers, rose to 26.2 in December from 22.7 in November. Tax cuts and regulatory reform are putting manufacturers in a much better mood. On the employment front, new claims for jobless benefits rose 20,000 last week to 245,000. Meanwhile, continuing claims rose 43,000 to 1.93 million. With the four-week moving average for initial claims at 236,000, look for another solid month of job growth in December. In housing news, the FHFA index, which measures prices for homes financed with conforming mortgages, increased 0.5% in October. In the past year, these home prices are up 6.6% versus a 6.4% increase in the year ending in October 2016. Look for continued gains in home prices in the year ahead, as jobs keep expanding, wage growth accelerates, and any headwind created by an increase in mortgage rates is offset by expectations of faster future economic growth. However, given the new limits on the state and local tax deduction in the proposed tax changes, look for the appreciation of home prices to be tilted toward low tax states while high tax states see much more modest home price gains, if any.



<b>3rd Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q3-17</b>	<b>Q2-17</b>	<b>Q1-17</b>	<b>Q4-16</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>3.2%</b>	3.1%	1.2%	1.8%	2.3%
<b>GDP Price Index</b>	<b>2.1%</b>	1.0%	2.0%	2.0%	1.8%
<b>Nominal GDP</b>	<b>5.3%</b>	4.1%	3.3%	3.8%	4.1%
<b>PCE</b>	<b>2.2%</b>	3.3%	1.9%	2.9%	2.6%
<b>Business Investment</b>	<b>4.7%</b>	6.7%	7.1%	0.2%	4.6%
<b>Structures</b>	<b>-7.0%</b>	7.0%	14.8%	-2.2%	2.8%
<b>Equipment</b>	<b>10.8%</b>	8.8%	4.4%	1.8%	6.4%
<b>Intellectual Property</b>	<b>5.2%</b>	3.7%	5.8%	-0.4%	3.5%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q3-17</b>	<b>Q2-17</b>	<b>Q1-17</b>	<b>Q4-16</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>1.5</b>	2.2	1.3	2.0	1.8
<b>Business Investment</b>	<b>0.6</b>	0.8	0.9	0.0	0.6
<b>Residential Investment</b>	<b>-0.2</b>	-0.3	0.4	0.3	0.0
<b>Inventories</b>	<b>0.8</b>	0.1	-1.5	1.1	0.1
<b>Government</b>	<b>0.1</b>	0.0	-0.1	0.0	0.0
<b>Net Exports</b>	<b>0.4</b>	0.2	0.2	-1.6	-0.2