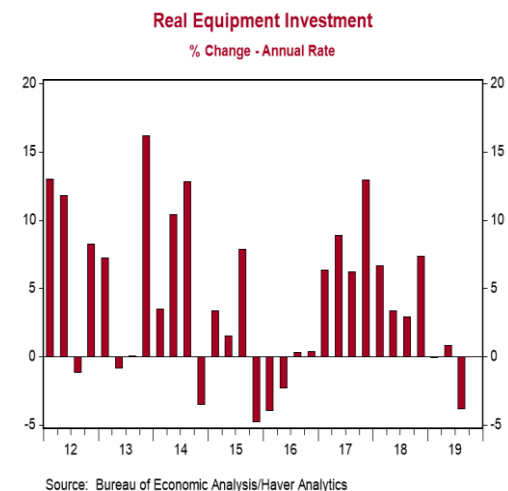
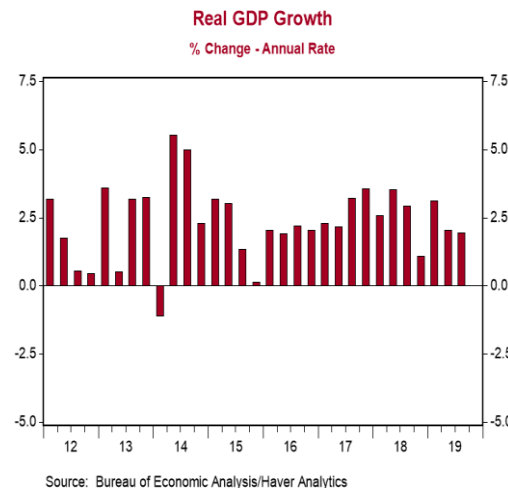


Third Quarter GDP (Advance)

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- The first estimate for Q3 real GDP growth is 1.9% at an annual rate, beating 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 commercial construction.
- Personal consumption, business investment, and home building, combined, grew at a 2.0% annual rate in Q3. They're up at a 2.1% rate in the past year and up at a 2.9% annual rate in the past two years.
- The GDP price index increased at a 1.7% annual rate in Q3. Nominal GDP – real GDP plus inflation – rose at a 3.5% rate in Q3, is up 3.7% from a year ago, and up at a 4.8% annual rate from two years ago.

Implications: The US economy grew faster than the consensus expected in the third quarter, with real GDP up at a 1.9% annual rate. Consumers continue to demonstrate confidence and growing purchasing power, with real consumer spending up at a 2.9% annual rate. Notably, home building rose at a 5.1% rate, the first increase since late 2017. We believe this turnaround has staying power as home builders attempt to keep pace with the demand for construction needed to keep up with population growth and the scrapping of homes. The most negative part of today's report was that business fixed investment declined at a 3.0% annual rate, with gains in intellectual property outweighed by less business investment in equipment and commercial construction. Look for a rebound in the quarters ahead, though, as the economy keeps outperforming consensus expectations and both tax and regulatory policy provide a favorable backdrop for business expansion. In terms of monetary policy, we still expect another rate cut from the Federal Reserve later today but think the GDP report shows why it's not needed. Nominal GDP – real GDP growth plus inflation – grew at a 3.5% annual rate in Q3 and in the past year is up 3.7%, well above the level of short-term interest rates. In other news this morning, the ADP index for private sector jobs increased 125,000 in October. We are sticking with our estimate of an 85,000 gain in nonfarm payrolls for the official Labor Department report on Friday, as the GM strike takes a temporary toll on job creation, setting up a sharp rebound for November. On the housing front, the national Case-Shiller price index increased 0.3% in August and is up 3.2% from a year ago, a deceleration from the 5.7% gain in the year ending in August 2018. In the past twelve months the cities with the most rapid price gains have been Phoenix, Charlotte, and Tampa – all in low-tax states – while the weakest gains have been in New York, Seattle, and San Francisco (the latter of which had a small outright price decline in the past year). Also in housing news, pending home sales, which are contracts on existing homes, increased 1.5% in September after a 1.4% gain in August. These figures suggest a healthy gain in existing home sales (counted at closing) for October. All in all, no sign of recession in the US economy.



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-19	Q2-19	Q1-19	Q4-18	4-Quarter Change
Real GDP	1.9%	2.0%	3.1%	1.1%	2.0%
GDP Price Index	1.7%	2.4%	1.1%	1.6%	1.7%
Nominal GDP	3.5%	4.7%	3.9%	2.9%	3.7%
PCE	2.9%	4.6%	1.1%	1.4%	2.5%
Business Investment	-3.0%	-1.0%	4.4%	4.8%	1.3%
Structures	-15.3%	-11.1%	4.0%	-9.0%	-8.1%
Equipment	-3.8%	0.8%	-0.1%	7.4%	1.0%
Intellectual Property	6.6%	3.6%	10.9%	11.7%	8.1%
Contributions to GDP Growth (p.pts.)	Q3-19	Q2-19	Q1-19	Q4-18	4Q Avg.
PCE	1.9	3.0	0.8	1.0	1.7
Business Investment	-0.4	-0.1	0.6	0.6	0.2
Residential Investment	0.2	-0.1	0.0	-0.2	0.0
Inventories	-0.1	-0.9	0.5	0.1	-0.1
Government	0.4	0.8	0.5	-0.1	0.4
Net Exports	-0.1	-0.7	0.7	-0.4	-0.1

Source: Bureau of Economic Analysis