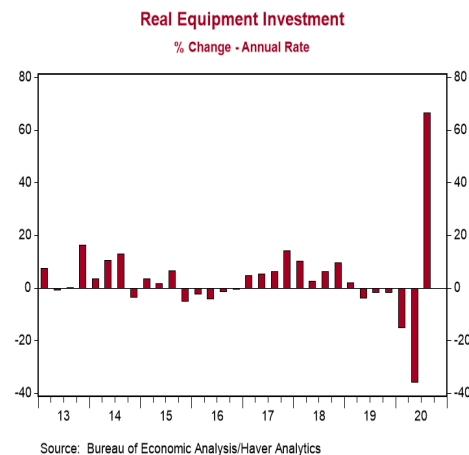
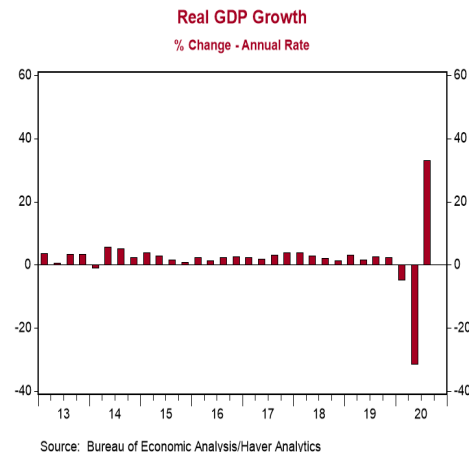


3rd Quarter GDP (Preliminary)

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- Real GDP was unrevised at a 33.1% annual growth rate in Q3, matching consensus expectations.
- Upward revisions to business investment and residential investment offset downward revisions to inventories, personal consumption, government spending, and net exports.
- The largest positive contribution to the real GDP growth rate in Q3 came from personal consumption.
- The GDP price index was unrevised at a 3.6% annual growth rate in Q3. Nominal GDP growth – real GDP plus inflation – was also unrevised at a 38.0% annual rate from a prior estimate of 3.5%.

Implications: Hold off on GDP for a moment. The big news in this morning’s GDP report was that economy-wide corporate profits soared in the third quarter, rising 27.1% and hitting an all-time record high, even higher than pre-COVID-19 levels. Profits were up 3.3% versus a year ago. Plugging economy-wide profits into our capitalized profits models suggest that, even at higher interest rates stocks are still relatively cheap. Meanwhile, the “second” GDP report for the third quarter showed the same massive growth that was estimated last month. Real GDP grew at a 33.1% annual rate in Q3. Business investment, specifically in intellectual property, and home building were revised higher, while personal consumption in services, government spending, trade, and inventories were revised slightly lower. Nominal GDP growth (real growth plus inflation) was unrevised at a 38.0% annual rate in Q3. Nominal GDP is down 1.8% in the past year but up at a 1.0% annual rate in the past two years. In other news today, personal income declined 0.7% in October (-0.4% including revisions to prior months), coming in below the consensus expected decline of 0.1%. Personal consumption rose 0.5% in October (+0.4% including prior month revisions). The consensus expected a gain of 0.4%. Personal income is up 5.5% in the past year, while spending has declined 0.6%. The decline in income was all due to a continued decline in government transfer payments. Excluding these payments, personal income rose 0.8% in October. Private-sector wages and salaries rose 1.0% in October, are up 12.7% from the April bottom, and are only 0.4% below the February high. On the spending side, after declining by 19% in March and April, total spending is only 1.6% below February levels, and is down only 0.6% versus a year ago. There is clear evidence of damage from the shutdowns, but spending is consistently improving. With spending growth continuing to outpace incomes, the saving rate declined to a (still elevated) 13.6% in October. This is down from 33.7% back in April, but still well above “normal” levels. On the inflation front, PCE prices were unchanged in October, but are up 1.2% from a year ago and up at a faster 1.9% annualized rate in the past three months. Core prices, which exclude the volatile food and energy components, also were unchanged in October, but are up 1.4% from a year ago and have likewise accelerated of late, up 2.0% annualized over the past three months.



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-20	Q2-20	Q1-20	Q4-19	4-Quarter Change
Real GDP	33.1%	-31.4%	-5.0%	2.4%	-2.9%
GDP Price Index	3.6%	-1.8%	1.4%	1.4%	1.1%
Nominal GDP	38.0%	-32.8%	-3.4%	3.9%	-1.8%
PCE	40.6%	-33.2%	-6.9%	1.6%	-2.9%
Business Investment	21.8%	-27.2%	-6.7%	-0.3%	-4.7%
Structures	-15.8%	-33.6%	-3.7%	-5.3%	-15.5%
Equipment	66.6%	-35.9%	-15.2%	-1.7%	-2.9%
Intellectual Property	6.0%	-11.4%	2.4%	4.7%	0.2%
Contributions to GDP Growth (p.pts.)	Q3-20	Q2-20	Q1-20	Q4-19	4Q Avg.
PCE	25.2	-24.0	-4.8	1.1	-0.6
Business Investment	3.1	-3.7	-0.9	0.0	-0.4
Residential Investment	2.2	-1.6	0.7	0.2	0.4
Inventories	6.6	-3.5	-1.3	-0.8	0.2
Government	-0.8	0.8	0.2	0.4	0.2
Net Exports	-3.2	0.6	1.1	1.5	0.0

Source: Bureau of Economic Analysis

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