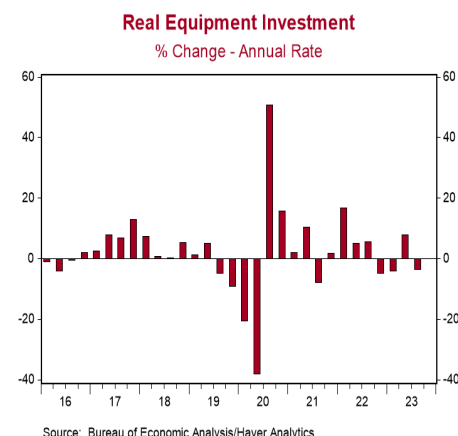
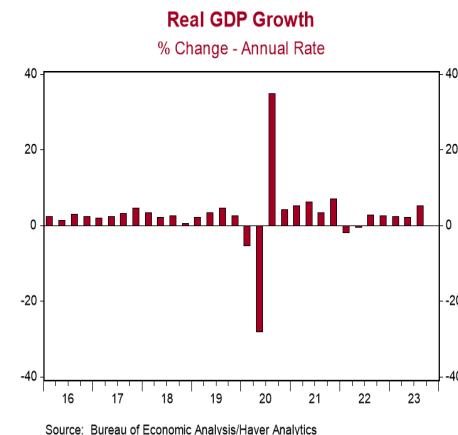


3rd Quarter GDP (Preliminary)

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- Real GDP growth in Q3 was revised higher to a 5.2% annual rate from a prior estimate of 4.9%, beating the consensus expectations of a 5.0% annual rate.
- Upward revisions to business investment, home building, government purchases and inventories more than offset a downward revision to personal consumption.
- Personal consumption, business fixed investment, and home building, combined, rose at a 3.3% annual rate in Q3. We refer to this as “core” GDP.
- The GDP price index was revised higher to a 3.6% annual growth rate from a prior estimate of 3.5%. Nominal GDP growth – real GDP plus inflation – was revised higher to an 8.9% annualized rate from a prior estimate of 8.5%.

Implications: Real GDP was revised upward for the third quarter to a 5.2% annual rate from a prior estimate of 4.9%, marking the fastest quarter of growth since 2021. The upward revision to the overall number was due to the cumulative effect of a series of upward revisions to business investment (mainly commercial construction), home building, inventories, and government purchases. These gains easily offset a downward revision to personal consumption which was in both durables and services. More important, today we also got our first look at economy-wide corporate profits for the third quarter, which rose 3.3% versus Q2, but are down 0.7% from a year ago. However, the government includes Federal Reserve profits in these data, and the Fed has recently been generating unprecedented losses. We follow profits excluding those earned (or lost) by the Fed, which were up 3.3% in the third quarter and up 5.4% from a year ago. In effect, the losses by the Fed are the private banking sector’s gain, as the Fed pays banks a yield of about 5.4% to hold reserves and do nothing with them. Still, plugging non-Fed profits into our Capitalized Profits Model suggests stocks are overvalued. In addition to corporate profits, we also got a Q3 total for Real Gross Domestic Income, an alternative to GDP that is just as accurate. Real GDI grew at only a 1.5% annual rate in Q3 and is down 0.2% versus a year ago, consistent with underlying economic weakness. These are figures that are normally seen in and around recessions. Regarding monetary policy, GDP inflation was revised slightly higher to a 3.6% annual rate in Q3 versus a prior estimate of 3.5%. GDP prices are up 3.3% from a year ago, still higher than the Fed’s 2.0% target. Meanwhile, nominal GDP (real GDP growth plus inflation) rose at an 8.9% annual rate in Q3 and is up 6.3% from a year ago. Look for lower real GDP growth and inflation in Q4. In recent housing news, home prices are showing consistent gains after a drop late last year. The national Case-Shiller index rose 0.7% in September while the FHFA index rose 0.6%. In recent manufacturing news, the Richmond Fed index, a measure of mid-Atlantic factory activity, slipped to -5.0 in November from +3.0 in October. We also received data on the M2 money supply yesterday which declined 0.1% in October and is down 3.3% from a year ago. Monetary policy operates with a lag, and we are likely to feel the negative economic effects of these declines in the months ahead.



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-23	Q2-23	Q1-23	Q4-22	4-Quarter Change
Real GDP	5.2%	2.1%	2.2%	2.6%	3.0%
GDP Price Index	3.6%	1.7%	3.9%	3.9%	3.3%
Nominal GDP	8.9%	3.8%	6.3%	6.5%	6.3%
PCE	3.6%	0.8%	3.8%	1.2%	2.3%
Business Investment	1.3%	7.4%	5.7%	1.7%	4.0%
Structures	6.9%	16.1%	30.3%	6.5%	14.6%
Equipment	-3.5%	7.7%	-4.1%	-5.0%	-1.4%
Intellectual Property	2.8%	2.7%	3.8%	6.1%	3.8%
Contributions to GDP Growth (p.pts.)	Q3-23	Q2-23	Q1-23	Q4-22	4Q Avg.
PCE	2.4	0.6	2.5	0.8	1.6
Business Investment	0.2	1.0	0.8	0.2	0.5
Residential Investment	0.2	-0.1	-0.2	-1.2	-0.3
Inventories	1.4	0.0	-2.2	1.6	0.2
Government	0.9	0.6	0.8	0.9	0.8
Net Exports	0.0	0.0	0.6	0.3	0.2

Source: Bureau of Economic Analysis