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November 27, 2024 • 630.517.7756 • www.ftportfolios.com

3rd Quarter GDP (Preliminary)

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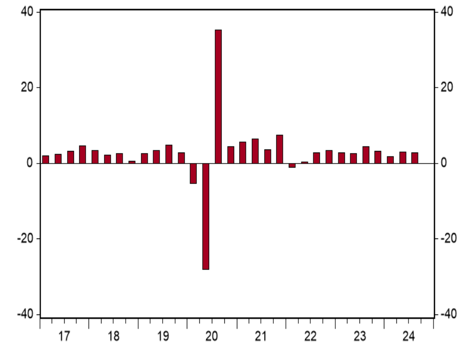
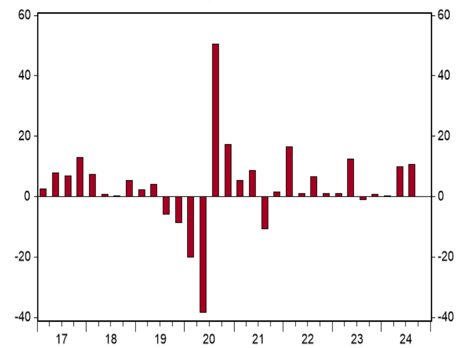
- Real GDP growth in Q3 was unrevised at a 2.8% annual rate, matching consensus expectations.
- Small upward revisions to business investment and inventories offset a small downward revision to personal consumption.
- Personal consumption, business fixed investment, and home building, combined, rose at a 3.2% annual rate in Q3. We refer to this as "core" GDP.
- The GDP price index was revised higher to a 1.9% annual growth rate from a prior estimate of 1.8%. Nominal GDP growth – real GDP plus inflation – was unrevised from a prior estimate of 4.7%.





Implications: Hold off on GDP for a moment. The most important data in this morning's report was on economy-wide corporate profits, which declined 0.3% in the third quarter vs. the second quarter, although still up 6.1% from a year ago. Profits from the rest of the world, which dropped 8.0%, led the decline in Q3 itself. Profits from domestic industries rose 0.8% from the previous quarter. Profit figures on the financial industry include the Federal Reserve and because the Fed pays private banks interest on reserves it has been generating unprecedented losses in recent quarters. Excluding the losses at the Fed (because we want to accurately count profits in the private sector), overall corporate profits were unchanged in the third quarter and up 4.8% from a year ago. Plugging in non-Fed profits into our Capitalized Profits Model suggests stocks remain overvalued. Looking at the other details of today's report, second quarter real GDP was unrevised at 2.8%. A small downward revision in spending on goods offset a small upward gain in business investment in research & development. To focus on sustainable growth drivers, we follow "core" GDP, which includes consumer spending, business fixed investment, and home building, while excluding government purchases, inventories, and international trade, which are too volatile for long-term growth. "Core" GDP increased at a 3.2% annual rate in Q3. We also got a first look at the Q3 total for Real Gross Domestic Income, an alternative to GDP that is just as accurate. Real GDI rose at a 2.2% annual rate in Q3 and is up 3.1% versus a year ago. In other words, GDI suggests today's report on Q3 may overstate growth a little. On the inflation front, the GDP price index was revised slightly higher to a 1.9% annual rate in Q3 versus a prior estimate of 1.8% and up 2.2% from a year ago, hovering close to the Fed's target. In other news yesterday, the Federal Reserve released monthly figures on M2, showing it up 0.4% in October and up 3.1% in the past year. M2 surged during COVID, then declined from early 2022 through early 2023. It has stopped declining, but isn't rising rapidly, which should put continued downward pressure on the growth rate of inflation and nominal GDP in the year ahead.

3rd Quarter GDP *Seasonally Adjusted Annual Rates*	Q3-24	Q2-24	Q1-24	Q4-23	4-Quarter Change
Real GDP	**2.8%**	3.0%	1.6%	3.2%	2.7%
GDP Price Index	**1.9%**	2.5%	3.0%	1.5%	2.2%
Nominal GDP	**4.7%**	5.6%	4.7%	4.8%	5.0%
PCE	**3.5%**	2.8%	1.9%	3.5%	2.9%
Business Investment	**3.8%**	3.9%	4.5%	3.8%	4.0%
Structures	**-4.7%**	0.2%	6.2%	6.5%	1.9%
Equipment	**10.6%**	9.9%	0.3%	0.7%	5.3%
Intellectual Property	**2.5%**	0.7%	7.5%	5.2%	4.0%
Contributions to GDP Growth (p.pts.)	**Q3-24**	**Q2-24**	**Q1-24**	**Q4-23**	**4Q Avg.**
PCE	**2.4**	1.9	1.3	2.3	2.0
Business Investment	**0.5**	0.5	0.6	0.5	0.5
Residential Investment	**-0.2**	-0.1	0.5	0.1	0.1
Inventories	**-0.1**	1.1	-0.5	-0.5	0.0
Government	**0.8**	0.5	0.3	0.6	0.6
Net Exports	**-0.6**	-0.9	-0.6	0.1	-0.5

Source: Bureau of Economic Analysis