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Economic Flash!

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US Q3 GDP: From Scorching to Still-Sweltering

Summary of US Gross Domestic Product from the Commerce Department

Ann Qtrly Chg	183Q	182Q	181Q	174Q	173Q	172Q	171Q
Real GDP	3.5%	4.2%	2.2%	2.3%	2.8%	3.0%	1.8%
YOY percent	3.0%	2.9%	2.6%	2.5%	2.3%	2.1%	1.9%
Personal consumption	4.0%	3.8%	0.5%	3.9%	2.2%	2.9%	1.8%
Goods	5.8%	5.5%	-0.6%	6.8%	4.1%	5.6%	1.9%
Durable goods	6.9%	8.6%	-2.0%	12.7%	7.7%	8.7%	1.9%
Nondurable goods	5.2%	4.0%	0.1%	4.0%	2.3%	4.0%	1.9%
Services	3.2%	3.0%	1.0%	2.6%	1.4%	1.7%	1.7%
Gross private invest	12.0%	-0.5%	9.6%	0.8%	8.8%	5.7%	4.9%
Fixed investment	-0.3%	6.4%	8.0%	6.2%	2.6%	4.3%	9.9%
Nonresidential	0.8%	8.7%	11.5%	4.8%	3.4%	7.3%	9.6%
Structures	-7.9%	14.5%	13.9%	1.3%	-5.7%	3.8%	12.8%
Equipment	0.4%	4.6%	8.5%	9.9%	9.8%	9.7%	9.1%
Intellectual Prop	7.9%	10.5%	14.1%	0.7%	1.7%	6.6%	8.0%
Residential	-4.0%	-1.3%	-3.4%	11.1%	-0.5%	-5.5%	11.1%
Exports	-3.5%	9.3%	3.6%	6.6%	3.5%	3.6%	5.0%
Goods	-7.0%	13.5%	3.2%	10.9%	2.1%	4.2%	4.2%
Services	3.5%	1.5%	4.2%	-1.0%	6.3%	2.6%	6.4%
Imports	9.1%	-0.6%	3.0%	11.8%	2.8%	2.5%	4.8%
Goods	10.3%	-0.4%	2.4%	14.2%	2.5%	2.4%	4.9%
Services	3.8%	-1.4%	5.5%	2.0%	4.4%	3.1%	4.5%
Government consump	3.3%	2.5%	1.5%	2.4%	-1.0%	0.0%	-0.8%
Federal	3.3%	3.7%	2.6%	4.1%	-1.3%	2.4%	0.0%
National defense	4.6%	5.9%	3.0%	2.9%	-2.9%	5.6%	-0.3%
Nondefense	1.5%	0.5%	2.1%	5.7%	1.1%	-2.0%	0.4%
State and local	3.2%	1.8%	0.9%	1.4%	-0.9%	-1.3%	-1.2%

Source: Bloomberg

- Another stellar, but slightly slower, quarter of growth in the US economy is an indication that tax cuts and government spending were still working their way through the economy in Q3. The 3.5% pace of growth, driven mainly by consumption and inventory rebuilding, was close to our expectations and therefore doesn't materially alter our view for just under 3% growth in the US economy as a whole in 2018. Today's report should leave the Fed on course to raise interest rates gradually, with the next quarter-point hike coming at their December meeting.

- Consumption led the headline advance, accelerating to a 4% pace, as job gains and tax cuts supported more robust spending. A heady advance in durable goods purchases drove that, but it was recreational vehicles, rather than cars, that accounted for most of the outsized gain. However, as job gains become scarcer and rates rise further, consumption should slow ahead. Indeed, activity in the autos and housing markets is already showing signs of fatigue. And come 2019, the impact of tax cuts on income growth should have faded. Consumers saved a little less in Q3, sending the savings rate four ticks lower to 6.4%, which is still a healthy level.
- Just behind consumption, inventories were the second-largest growth contributor. That was likely a result of producers replenishing their stocks of goods following a draw down in the prior quarter as foreign buyers attempted to front-run their own country's retaliatory tariffs on US goods. That meant that net trade was a drag on growth, with export volumes falling by 3.5% while import volumes surged by 9%. Imports could have also been amplified by American producers attempting to front-run tariffs on Chinese goods, which likely also contributed to the inventory buildup.
- Business fixed investment fell slightly (-0.3%), posting its weakest reading since 2015, suggesting that momentum from lofty advances in the first half is tailing off. Indeed, core capital goods orders are tracking lower, a sign that business investment is decelerating and the most material effects of corporate tax cuts may now be in the rearview mirror. Government spending advanced by 3.3%, the strongest showing since 2016.
- Core PCE grew at an annual rate at 2.0% in Q3, right on the Fed's target and a hair faster than in the prior quarter. That's an indication that the economy is progressing in line with the Fed's expectations and should leave officials on track to raise rates at their December meeting.

Implications & Actions

Re: Economic Forecast —Today's report still leaves us tracking just under 3% growth for the US economy as a whole in 2018, with a more notable deceleration in growth likely in store for Q4. The impact of higher interest rates, along with job gains getting harder to come by as full employment is reached, should see consumption slow ahead. And with the boost from tax cuts continuing to fade, the pace of growth in the US economy should converge towards its 2% potential in the quarters ahead.

Re: Markets — Given that today's report largely conformed to expectations, market movements were limited.