

ECONOMIC ALERT

U.S. REAL GDP – Q3 2018 (ADVANCE ESTIMATE)

Released Friday, October 26, 2018

Real GDP: +3.5% quarter-over-quarter (annualized rate) (Cons: +3.3%), +3.0% year-over-year

Real Final Sales: +1.4% quarter-over-quarter (annualized rate), +3.0% year-over-year

Quick Take:

The advance estimate of Q3 real GDP growth was 3.5%, higher than economists' estimates for 3.3% growth. Q3 2018 represented the sixth consecutive quarter in which quarterly growth exceeded 2.0%, the longest such period of this cycle. On a year-over-year basis, real GDP grew 3.0% in Q3, the fastest pace of growth since Q2 2015. Growth in Q3 was powered by personal consumption, which contributed 2.7 percentage points (ppt) to quarter-over-quarter growth, and inventories, which contributed 2.1 ppt.

Real Final Sales, which excludes the inventories component and is a less volatile version of economic growth, grew 1.4% in Q3, the lowest pace of quarter-over-quarter growth in 7 quarters.

Real GDP growth in Q3 and Q2 represented the strongest back-to-back quarterly GDP readings in four years despite volatile fluctuations in inventories and net exports that had offsetting impacts to growth. Looking past the noise, it was broad-based personal consumption that drove economic growth in both quarters, as goods spending and services spending each contributed over 1.0 ppt to quarterly real GDP growth in both Q3 and Q2. Spending on food services, clothing, home furnishings, and recreational goods has been particularly strong. Spending on motor vehicles and parts, which was a significant drag on real GDP in Q1, increased 3.8% in Q3 after rising 6.4% in Q2.

Despite the swings in trade and inventories over the past two quarters, real GDP remains on the moderate growth track seen throughout much of the expansion. Q3 year-over-year real GDP growth of 3.0% was slightly above the average annual growth of 2.2% since the start of 2010, but is not higher than previous readings seen during this expansion.

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Notable Data:

PCE growth was 4.0% quarter-over-quarter in Q3, up from 3.8% growth in Q2 2018. Both goods consumption (+5.8% quarter-over-quarter) and services consumption (+3.2% quarter-over-quarter) accelerated in Q3. PCE contributed +2.7 ppt to Q3 real GDP growth, the highest since Q4 2014. Looking forward, the outlook for personal consumption (~70% of the economy) remains healthy given gains in personal income and the tightness in the labor market.

Fixed Investment was a neutral contributor to Q3 real GDP growth, down from a +1.1 ppt contribution in Q2. Investment in intellectual property contributed +0.35 ppt to growth, which was offset by declines in structure and residential investment.

Government consumption contributed 0.56 ppt to real GDP growth in Q3, up from 0.43 ppt in Q2.

The 3.0% year-over-year gain in real GDP was boosted by growth in inventories by +0.1 percentage points.