Consumers Drive Q3 GDP Growth

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The initial measure of third quarter GDP showed the U.S. economy grew at *its strongest pace since the end of 2021*. The +4.9% quarterly annualized increase exceeded the +4.5% median forecast and was more than double the pace of the previous period.

Personal consumption (consumer spending) rose +4.0% in the third quarter, a significant bump from the +0.8% advance in Q2. Consumer spending, which historically accounts for about 2/3rd of U.S. economic growth, contributed 2.7 percentage points to the headline, up from 0.5 in the second quarter. Within the consumption number, spending on goods rose +4.8% (adding 1.1 percentage points) while spending on services rose +3.6% (adding 1.6 percentage points).

Residential investment actually chipped in 0.15 percentage points, the first positive contribution from the housing sector in over two years. Spending on business structures and equipment slowed dramatically, as nonresidential fixed investment was essentially flat.

Business inventory accumulation added 1.3 percentage points to the headline. This category can be extremely volatile from period to period, and the Q3 inventory increase probably reflects caution more than optimism. Government spending added 0.8 percentage points, while net trade was fractionally lower as imports retreated and exports rose.

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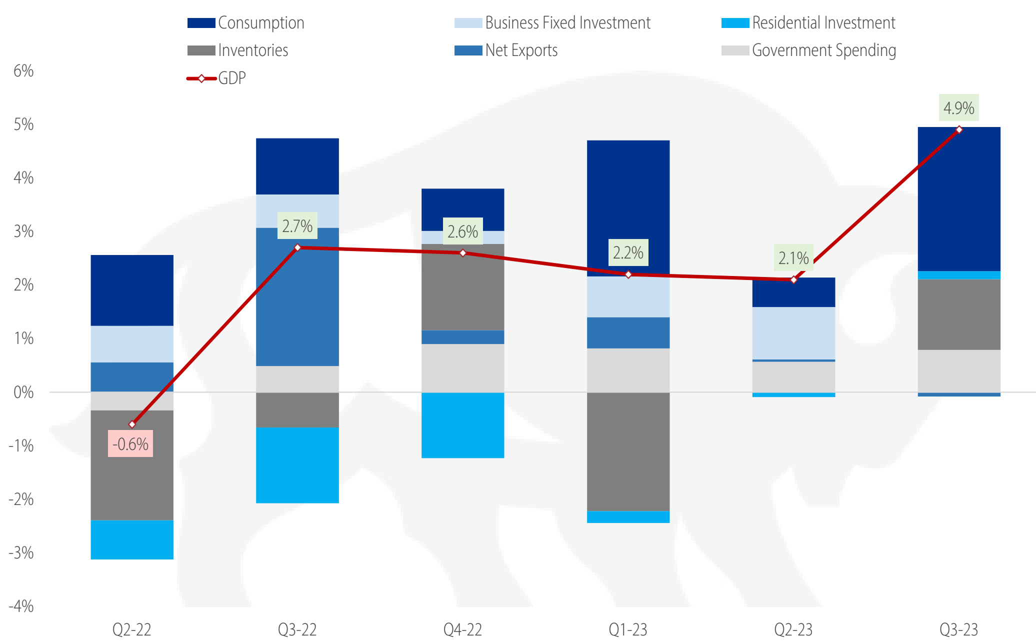
Gross Domestic Product (Quarter-over-Quarter Annualized Percent Change)



Source: Bureau of Economic Analysis

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The answer from a majority of economists is *sharply lower growth*. Consumers simply have less money to spend. Personal savings plunged from just over $1 trillion to $777 billion during the quarter and credit card borrowings are already at record highs.

When an economic contraction that's been anticipated for more than a year turns out to be the strongest quarterly expansion since Q4 2021, it's hard to buy into the now familiar, dire near-term forecasts.

The most recent Bloomberg survey (now a week old) indicates a median Q4 GDP forecast of +0.8% (QoQ, seasonally adjusted, annualized rate). The same survey, reflecting outlooks from more than 70 U.S. economists, shows the median forecast for Q1 2024 at +0.2% and Q2 2024 at +0.5%, before picking up modestly in the second half of next year.

Earlier this week, former PIMCO CIO Bill Gross tweeted the US will drop into a mild recession *this quarter*. Gross cited rising auto loan delinquencies and worsening conditions at regional banks. The Bloomberg Economics team joined Gross in calling for a mild recession to end 2023.

When an economic contraction that's been anticipated for more than a year turns out to be the strongest quarterly expansion since Q4 2021, it's hard to buy into the now familiar, dire near-term forecasts. But, while headline growth widely outperformed last quarter, the underlying consumption issues that concerned forecasters previously have only worsened: Personal savings continue to fall, credit card balances are at record highs, delinquencies are on the rise and consumer confidence is waning. Lessor parts of the GDP equation are also vulnerable. Net exports and business inventories, both adding to growth in Q3, are expected to reverse direction in Q4.

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Market Indications as of 9:11 A.M. Central Time

DOW	Down -49 to 32,987 (HIGH: 36,800)
NASDAQ	Down -139to 12,682 (HIGH: 16,057)
S&P 500	Down -17 to 4,170 (HIGH: 4,797)
1-Yr T-bill	current yield 5.42%; opening yield 5.41%
2-Yr T-note	current yield 5.07%; opening yield 5.11%
3-Yr T-note	current yield 4.92%; opening yield 4.97%
5-Yr T-note	current yield 4.85%; opening yield 4.90%
10-Yr T-note	current yield 4.92%; opening yield 4.94%
30-Yr T-bond	current yield 5.07%; opening yield 5.08%

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