

Consumer Spending Drives Solid Q3 GDP

The initial estimate of third quarter GDP came in slightly below forecast, but still quite solid, as the U.S. economy continues to grind higher. The +2.8% reading (quarter-over-quarter, annualized), missed the median forecast by a tenth and follows a +3.0% Q2 increase. Inventory accumulation was negative last quarter, subtracting 0.17 percentage points, while net exports subtracted another 0.56%. However, personal consumption made up the shortfall, climbing +3.7% with the biggest gain since Q1 2023. When the volatile inventory component is factored out, final sales of domestic products rose +3.2%, the most this year.

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Government spending increased by +5.0%, with defense spending up +14.9%, the most in over two decades. Business equipment spending was the strongest in over a year, while residential investment (housing) was a significant drag, falling -5.1%, the most in seven quarters.

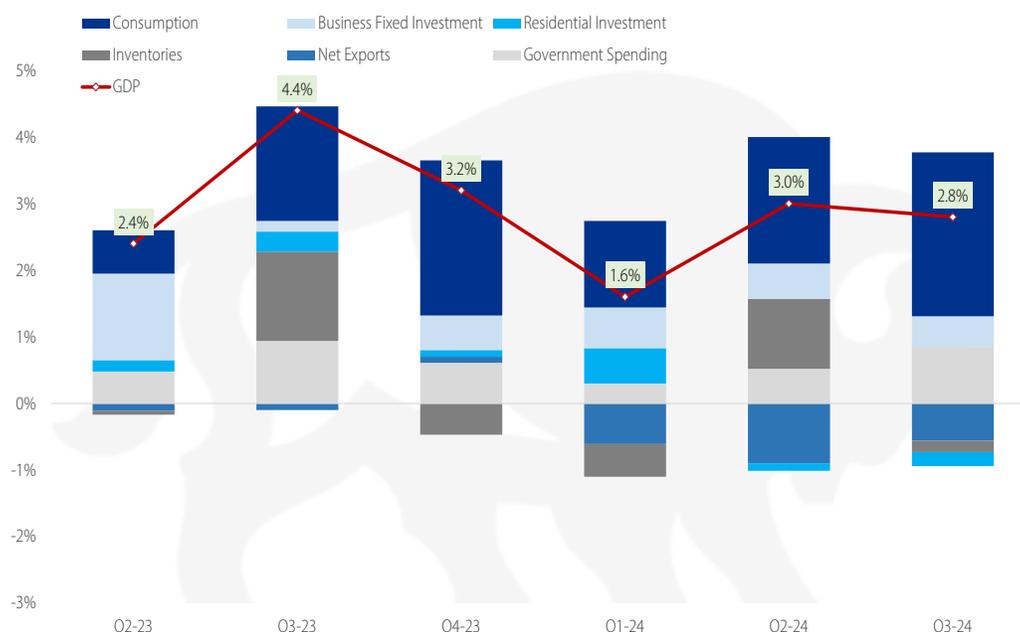
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The GDP price index was up just +1.8% on a quarter-over-quarter, annualized basis, after a +2.5% rise in the previous period. Overall, it was a good (not great) report card for the third quarter with solid growth and fading price pressure. The inventory drag is likely to reverse as businesses restock goods in preparation for the holidays.

In other news this morning, mortgage applications fell for the fifth straight week as home loan rates drift higher. The overall -0.1% decline was mostly due to dormant refinancing activity; refi's fell -6.3%, while applications for new purchases rose +5.0%.

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



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Source: Bureau of Economic Analysis

Also this morning, the ADP employment change report raised eyebrows with a +233k October increase in private payrolls, the most in over a year and more than doubling the median forecast, while the previous month's gain was revised upward. It was a surprisingly robust report amid the Boeing strike and hurricane fallout.

Yesterday, the JOLT survey showed job openings fell by more than -400k in September to 7.44 million, the lowest since Feb 2021, while the number of layoffs climbed to the highest level in 20 months. The quits rate slipped to 1.9%, down from 2.3% pre-pandemic. The lower percentage of Americans voluntarily quitting their jobs indicates people believe new job opportunities are becoming harder to find.

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The JOLTS results are in sharp contrast to the September employment report (released at the beginning of the month), which showed an unexpected jump in nonfarm payrolls and a decline in unemployment. The October jobs report, to be released Friday morning, is expected to appear soft due to the one-two punch of Helene and Milton. This morning's surprisingly strong ADP numbers hint at upside, while the most recent JOLTS suggests more substantial underlying weakness.

This week's reports offer no clear direction to the financial markets, which are focused on next week's election and the Fed meeting.

Market Indications as of 9:00 A.M. Central Time

DOW	Up 126 to 42,359 (HIGH: 43,276)
NASDAQ	Up 14 to 18,726 (NEW HIGH)
S&P 500	Down -18 to 5,815 (HIGH: 5,865)
1-Yr T-bill	current yield 4.26%; opening yield 4.24%
2-Yr T-note	current yield 4.10%; opening yield 4.10%
3-Yr T-note	current yield 4.05%; opening yield 4.05%
5-Yr T-note	current yield 4.06%; opening yield 4.08%
10-Yr T-note	current yield 4.21%; opening yield 4.25%
30-Yr T-bond	current yield 4.44%; opening yield 4.50%

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