

GDP Revision and Durable Goods Point to a Firmer Q3

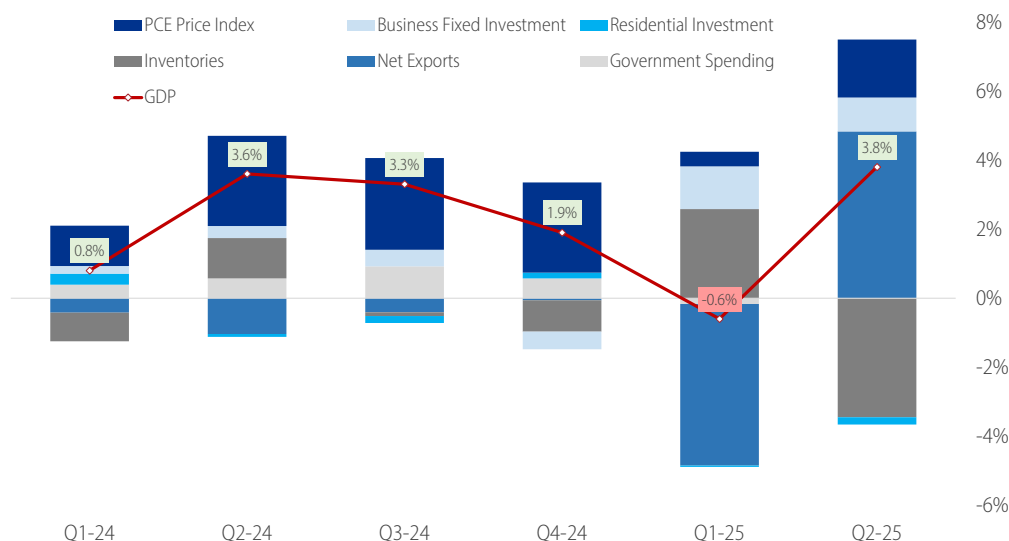
A fresh wave of economic data today suggests the U.S. economy entered the third quarter with more momentum than previously thought, led by a sizable GDP revision and gains in durable goods.

Second quarter real GDP was revised up to 3.8% from 3.3%, reflecting stronger consumer spending, specifically in services, and a sharp rebound in business fixed investment. The GDP revision reflects stronger consumer and business activity than previously captured. A key measure of underlying demand, final sales to domestic purchasers, rose to 2.4% in Q2 and now appears to be tracking closer to 3.5% in the third quarter.

Durable goods orders added to the positive tone today. New orders rose 2.9% in August, well above expectations for a decline. The increase in durable goods orders was driven by gains in aircraft, machinery, and fabricated metals. Orders excluding transportation rose 0.4% and are up 3.6% from a year ago, offering a positive read on manufacturing activity. That said, the component most relevant for GDP, shipments of capital goods excluding aircraft, slipped 0.3% in August. If that pace holds through September, it will still point to a solid +3% annualized gain for business investment in the third quarter.

Recent data on economic growth has been strong, but it stands in contrast to the broader trend in the labor market, which has shown signs of cooling. Hiring has slowed, wage growth has moderated, and recent payroll reports have come in below expectations. This reflects Chair Powell's "no hire, no fire" dynamic, where businesses are holding steady on staffing amid economic uncertainty, but not actively expanding headcount. Also today, existing home sales dipped 0.2% in August to a 4.0 million annualized pace, continuing a broader flatlining trend. Elevated mortgage rates and a recent pickup in home prices have kept demand subdued, even as inventory levels have begun to normalize.

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



Source: Bureau of Economic Analysis

Please see disclosure starting on page 2.

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While headwinds remain, especially in the housing and the labor market, accelerating growth could support potential job gains in the months ahead. Today's data also eased some pressure on the Fed: the odds of an October rate cut have slipped to 85%, down from 93% yesterday, and bond yields moved modestly higher across the curve in response to today's stronger-than-expected data, reflecting the ever-changing market expectations of the path of monetary policy.

Market Indications as of 1:18 P.M. Central Time

DOW	Down -305 to 45,816 (HIGH: 46,382)
NASDAQ	Down -239 to 22,259 (HIGH: 22,789)
S&P 500	Down -49 to 6,589 (HIGH: 6,694)
1-Yr T-bill	current yield 3.67%; opening yield 3.61%
2-Yr T-note	current yield 3.65%; opening yield 3.60%
3-Yr T-note	current yield 3.66%; opening yield 3.60%
5-Yr T-note	current yield 3.76%; opening yield 3.71%
10-Yr T-note	current yield 4.18%; opening yield 4.14%
30-Yr T-bond	current yield 4.76%; opening yield 4.75%

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