



October 27, 2017

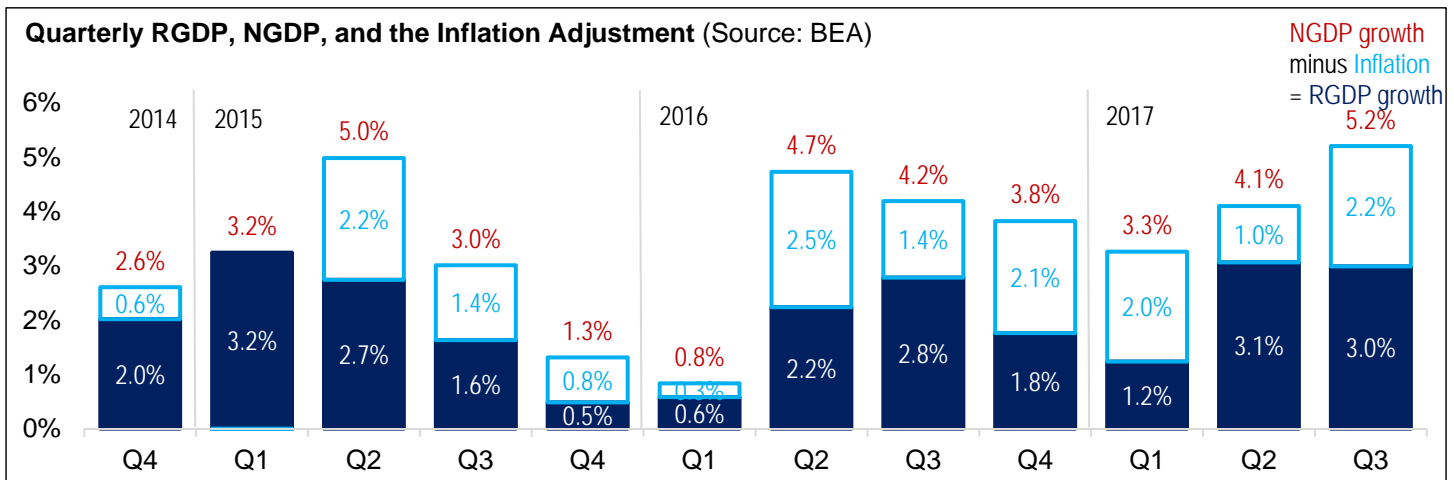
Third Quarter 2017 GDP Review

GDP Review Snapshot

- Real GDP grew at an annualized rate of 3.0% in the third quarter of 2017.
- Hurricanes Harvey and Irma were anticipated to significantly lower GDP growth, but did not.
- Real GDP growth easily beat the Blue Chip Consensus' expectation of 2.4%.

Details

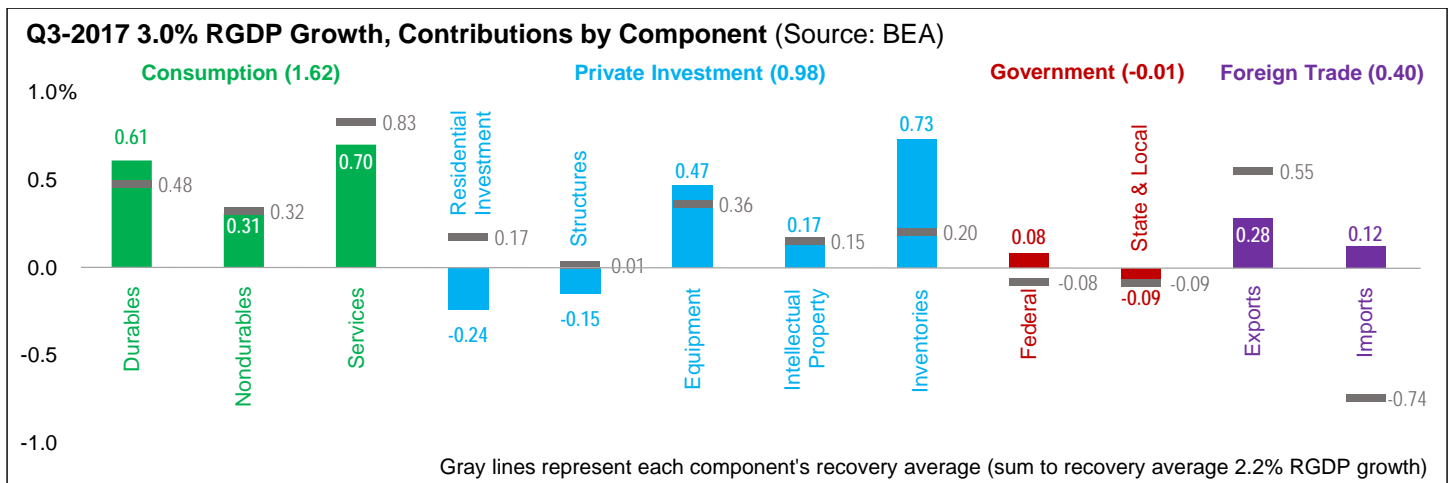
The [Bureau of Economic Analysis \(BEA\) reported](#) that real gross domestic product (RGDP) grew at a 3.0% annual rate¹ in the third quarter of 2017. This compares to 3.1% for the previous quarter. Nominal GDP (NGDP), which measures total spending in the economy without adjusting for inflation, increased by 5.2%. After adjusting for 2.2% inflation—as measured by the GDP deflator—RGDP growth was 3.0%.



Component/Quarter	Actual		Blue Chip Consensus Forecast			
	Q2-2017	Q3-2017	Q3-2017	Q4-2017	Q1-2018	Q2-2018
Real GDP (RGDP) growth	3.1%	3.0%	2.4%	2.6%	2.3%	2.4%
Nominal GDP (NGDP) growth	4.1%	5.2%	4.1%	4.6%	4.2%	4.3%
GDP deflator (inflation rate)	1.0%	2.2%	1.7%	2.0%	1.9%	1.9%

Consumer spending was on par with its average contribution to real GDP growth during this cycle's expansion (started Q3-2009), accounting for +1.62 percentage points. Business investment in equipment and intellectual property, contributed +0.47 and +0.17 percentage points. There was a larger than average increase in business inventories, which contributed +0.73 percentage points. Net exports contributed +0.40 percentage points (compared to a -0.20 average). Increased federal government spending (+0.08) was offset by reduced state & local government spending (-0.09) for a net contribution of -0.01. Investment in residential and business structures subtracted a combined 0.39 percentage points from RGDP growth.

Two updates to BEA's initial GDP report are scheduled for November 29 and December 21. The fourth quarter GDP report is scheduled for January 26, 2018, at 8:30am.



Third Quarter Economic Indicators	Jul-17	Aug-17	Sep-17
ISM Manufacturing Index (>50, expansion)	56.3	58.8	60.8
ISM Non-Manufacturing Index	53.9	55.3	59.8
U.S. Trade Balance (millions)	-43,558	-42,395	N/A
Retail Sales	0.5%	-0.1%	1.6%
Business Inventory-to-Sales Ratio	1.38	1.38	N/A
Housing Starts	-2.6%	-0.2%	-4.7%
Durable Goods Orders	-6.8%	2.0%	2.2%
Personal Income	0.3%	0.2%	N/A
Personal Outlays	0.3%	0.1%	N/A
Nonfarm Payroll Job Growth	138,000	169,000	(33,000)
Private Payroll Job Growth	133,000	164,000	(40,000)
PCE Inflation (12-month change)	1.4%	1.4%	N/A
Core PCE Inflation (12-month change)	1.4%	1.3%	N/A
Consumer Confidence	120.0	120.4	119.8

Context

Despite the [anticipation](#) that hurricanes Harvey and Irma would have significant, negative effects, the 3.0% RGDP growth exceeded the Blue Chip Consensus' expectation of 2.4%. This suggests that the U.S. economic outlook continues to improve. Nonetheless, tax and regulatory reform remain essential for ensuring the U.S. economy can [recover its lost potential](#) and restore robust wage growth for American workers.

Noteworthy

The strong growth in business inventory investment was mostly driven by accumulation of motor vehicle inventories held by wholesalers and petroleum products.

The effects of hurricanes Harvey and Irma, are difficult to isolate. The hurricanes may have led to a pause in building, which contributed to the decline in investment in residential housing and business structures. However, Hurricane Harvey, which disrupted the Gulf region's ability to receive crude oil shipments from abroad, reduced U.S. imports, thus mitigating a downward drag on GDP (imports are subtracted from GDP).

Hurricane Maria, which devastated Puerto Rico and the U.S. Virgin Islands, did not affect the GDP numbers as production by U.S. commonwealth and territories is included in U.S. GDP, but reported separately at a different time.

¹ Quarterly numbers are reported here at annual rates unless stated otherwise. An annual rate for a quarter means BEA calculated the change from the previous quarter as if it occurred throughout a year.