

2018Q3 GDP, First Estimate**3.5 Percent Q3 Real GDP Growth Masks Major Gyration in Components**

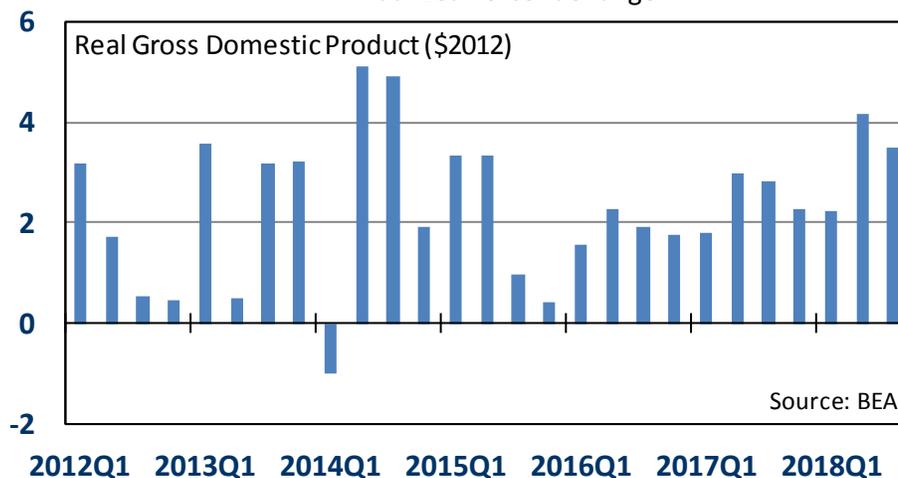
- Real Gross Domestic Product for 2018Q3 increased at a 3.5 percent annualized rate.

Real gross domestic product increased at a 3.5 percent annualized rate in the third quarter, according to the first estimate from the Bureau of Economic Analysis. This follows a stronger 4.2 percent quarter in Q2. Consumers did their part and then some. Real consumer spending increased by more than we thought it would, growing at a 4.0 percent rate in Q3, slightly above the 3.8 percent growth rate from Q2. High consumer confidence and strong labor market conditions are helping, despite slumping housing markets. Consumer spending on durable goods increased at a strong 6.9 percent annualized growth rate after registering 8.6 percent growth in Q2. Spending on nondurables accelerated from a 4.0 percent growth rate in Q2, to 5.2 percent in Q3. Consumer spending on services picked up from a 3.0 percent growth rate in Q2 to 3.2 percent in Q3. Business fixed investment was weak in Q3, growing at a 0.8 percent annualized rate after two strong quarters in the first half of the year. Spending on all three components of business fixed investment, structures, equipment and intellectual property, decelerated in the third quarter. Residential investment declined for the third consecutive quarter, falling at a -4.0 percent annualized rate, symptomatic of cooling real estate markets. Real inventories did an about face. After falling by \$37 billion (\$2012) in Q2, inventories rebounded by a very strong \$76.3 billion in Q3, adding 2.1 percentage points to Q3 real GDP. Real exports declined at a 3.5 percent annualized rate in Q3, while imports surged at a 9.1 percent rate. Gyration in trade this year are due to timing issues around the trade wars and due to the strong dollar. Trade subtracted 1.8 percentage points from real GDP growth in Q3. Federal government spending has picked up noticeably beginning in late 2017. It increased at a 3.3 percent annualized rate in Q3 after 3.7 percent growth in Q2. State and local government spending was also unusually strong in Q3, increasing at a 3.2 percent annualized rate. Total government spending added 0.6 percentage points to Q3 real GDP growth. We expect real GDP growth to moderate more in the current fourth quarter as consumer spending normalizes along with inventory accumulation and spending by state and local governments.

Market Reaction: U.S. equity markets opened with losses again. The 10-year Treasury bond yield is down to 3.07 percent. NYMEX crude oil is down to \$66.66/barrel. Natural gas futures are down to \$3.15/mmbtu.

Real GDP Growth Hits 3.5% in 2018Q3

Annualized Percent Change



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