

U.S. Data Review

- GDP: as expected, slower growth in Q3

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Third Quarter U.S. GDP

The U.S. economy grew 2.0 percent in the third quarter, in line with what a revised consensus estimate would likely show. Bloomberg was showing a consensus of 2.6 percent, but most of the forecasts in that survey were made before the publication of reports on goods trade and durable goods orders. Those statistics would probably have led to downward adjustments of approximately one half percentage point to forecasts and thus a consensus of approximately 2.0 percent. The third quarter results pushed GDP further above its pre-pandemic level in 2019-Q4, although it remained shy of the extrapolated pre-Covid trend (chart).

Consumer spending stands out as leading the slowdown in growth, as expenditures rose 1.6 percent in Q3 versus 12.0 percent in Q2. However, the increase in Q3 was better than the 0.9 percent we had expected. Interestingly, service spending performed well despite the spread of Covid (up 7.9 percent). The slowdown was led by weakness in

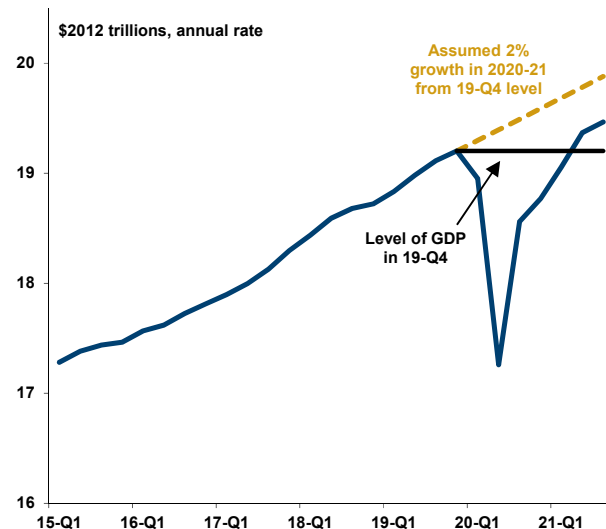
spending on durable goods (off 26.2 percent), influenced heavily by motor vehicle purchases (off 53.9 percent) but also reflecting softness in household furnishings and recreational goods. Individuals also contributed to the slowdown in growth through the housing sector, as residential construction fell 7.7 percent. Construction of new homes eased, as did improvements to existing homes.

Business fixed investment disappointed with an increase of only 1.8 percent. Outlays for equipment and new structures fell, but a jump in investment in intellectual property provided an offset. Businesses contributed to growth through inventory investment (contributing 2.07 percentage points to GDP growth). However, firms are still depleting stocks because of shortages; the positive contribution reflected a smaller drawdown than that in Q2 (smaller reductions translate to an increase when calculating growth rates).

The trade sector was a drag on growth again in Q3, marking the fifth consecutive quarter where net exports made a negative contribution to growth. The constraint of 1.14 percentage points in the third quarter was a bit lighter than the average of 1.66 percentage points in the prior four quarters.

Government spending grew modestly (0.8 percent) reflecting a drop in federal outlays that was more than offset by state and local activity. The decline in federal spending was influenced by a drop in outlays to administer the Paycheck Protection Program (application period ended in June). State and local spending was driven primarily by a pickup in education-related activities.

Real GDP



Source: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

The GDP price index rose at an annual rate of 5.7 percent in the third quarter, a touch slower than the increase of 6.1 percent in Q2 but otherwise the fastest pace in 39 years. The price index for personal consumption expenditures rose 5.3 percent, influenced by energy prices but also reflecting broad-based pressure (the core index rose 4.5 percent). The broad-based nature of the inflation impulse also was evident in the price indexes for other components of GDP (e.g. business structures 10.4 percent, residential construction 14.0 percent, government spending 5.4 percent).

GDP and Related Items*

	20-Q4	21-Q1	21-Q2	21-Q3
1. Gross Domestic Product	4.5	6.3	6.7	2.0
2. Personal Consumption Expenditures	3.4	11.4	12.0	1.6
3. Nonresidential Fixed Investment	12.5	12.9	9.2	1.8
3a. Nonresidential Structures	-8.2	5.4	-3.0	-7.3
3b. Nonresidential Equipment	26.4	14.1	12.1	-3.2
3c. Intellectual Property Products	10.2	15.6	12.5	12.2
4. Change in Business Inventories (Contribution to GDP Growth)	1.1	-2.6	-1.3	2.1
5. Residential Construction	34.4	13.3	-11.7	-7.7
6. Total Government Purchases	-0.5	4.2	-2.0	0.8
6a. Federal Government Purchases	-3.1	11.3	-5.3	-4.7
6b. State and Local Govt. Purchases	1.2	-0.1	0.2	4.4
7. Net Exports (Contribution to GDP Growth)	-1.7	-1.6	-0.2	-1.1
7a. Exports	22.5	-2.9	7.6	-2.5
7b. Imports	31.3	9.3	7.1	6.1
Additional Items				
8. Final Sales	3.4	9.1	8.1	-0.1
9. Final Sales to Domestic Purchasers	5.0	10.4	8.0	1.0
10. Gross Domestic Income	19.6	6.3	2.3	—
11. Average of GDP & GDI	11.9	6.3	4.5	—
12. GDP Chained Price Index	2.2	4.3	6.1	5.7
13. Core PCE Price Index	1.2	2.7	6.1	4.5

* Percent change SAAR, except as noted

Source: Bureau of Economic Analysis via Haver Analytics