November 24, 2015

TD Economics

Data Release: U.S. economy grows 2.1% in Q3, better than originally thought

- Real gross domestic product (GDP) grew by 2.1% in the third quarter (according to the second estimate), up from an advanced estimate of 1.5% and bang-on consensus. Another measure of economic output, real gross domestic income (GDI), reported for the first time with this release, grew a stronger 3.1%.

- Upward revisions to inventory investment explained the vast majority of the upgrade to real GDP. Inventories still subtracted 0.6 percentage points from topline growth, but this is substantially less than the original estimate of -1.4 pp.

- Personal consumption expenditure was revised down slightly (to 3.0% from 3.2%), while fixed business investment was revised up modestly (3.4% from 2.9%), as higher equipment investment offset weaker structures. Overall, domestic demand – spending by households, business, and governments – rose 2.8% (from 2.9% originally).

- Exports were revised down modestly (0.9% from 1.9%), while imports were revised up (2.1% from 1.8%). As a result, net exports subtracted 0.2 percentage points from real GDP growth (from 0.0 pp originally).

Key Implications

- There is little here to change the narrative for the American economy. The upward revision to economic growth is offset by the weaker details, with slightly slower domestic demand growth and more drag from net exports, making up for the smaller drawdown in inventories.

- Overall, the economy looks to be growing at around a 2.0% rate over the second half of 2015. This is broadly in line with the Fed's expectations and consistent with a gradual exit from the zero lower bound.

- The headwinds to growth from reduced investment in the energy sector and the rapidly appreciating dollar should dissipate over the next year, allowing economic growth to pick up modestly to around 2.5%.

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