November 29, 2016

TD Economics

Data Release: U.S. consumers drive upward revision to third quarter economic growth

- Real GDP growth was revised up to 3.2% (annualized) in the third quarter, from a 2.9% advance estimate, slightly better than the consensus expectation.

- The largest upward revision was to consumer spending, which now rose 2.8%, from a previously reported 2.1% advance. All major components of spending were revised up. In particular, purchases of durable goods rose 11.2%, topping a the 9.5% increase in the second quarter.

- The disappointment in this report came in a downward revision to business investment, which now barely grew (+0.1% annualized). The previously reported decline in equipment investment was revised further down to -4.8% (annualized) as was investment in intellectual property (1.0%). However, investment in structures was revised up significantly to 10.1%.

- Residential investment remained in the red, albeit to a lesser extent, down 4.4% (previously reported 6.2%).

- The boost from net exports was revised slightly higher, now adding 0.9 percentage points (pp) to real GDP growth (from 0.8 pp previously).

- The notable contribution from inventory investment was somewhat reduced, from 0.6 pp to 0.5 pp.

Key Implications

- Today's report was largely good news, as consumer spending, which had looked a tad modest in the advance report, now grew at a near-3% pace. That comes on the heels of a 4.3% jump in the second quarter, painting a picture of a healthy and confident U.S. consumer, supported by continued gains in the labor market.

- That confidence has not yet spread to businesses, who have reduced outlays on equipment for four consecutive quarters. It was encouraging to see increased investment in structures, but that is a much smaller category. Investment should improve in the coming quarters, albeit modestly. Corporate profits rebounded substantially in the third quarter after falling since early 2015, creating a more positive backdrop for business spending.

- Looking ahead to the fourth quarter, we expect 2016 to close out with a pace just north of 2%. The real question for economists now is how the new President and Congress will influence the outlook over the next two years. Markets have priced in an inflationary fiscal expansion, but the details on tax cuts and infrastructure spending still have to be worked out. Given the proximity of the economy to full employment, any significant fiscal expansion is likely to be met with a faster pace of rate hikes from the Federal Reserve.

Leslie Preston, Senior Economist
416-983-7053

@TD_Economics