Revised Data Show That GDP Growth Remained Modest in Q3

Revised data show that real GDP grew at an annualized rate of 2.1% in Q3-2019. Growth in real disposable income remains strong, which is a solid fundamental supporting the economy at present.

GDP Growth Revised Slightly Higher

Revised data that were released today showed that U.S. real gross domestic product (GDP) grew at an annualized rate of 2.1% in Q3-2019, which was a tad stronger than the 1.9% rate that was originally reported (top chart). Revisions fell largely in the investment component of the GDP accounts. Business fixed investment, which was originally reported to have declined 3.0% during the quarter, was revised to show a drop of 2.7% instead. In addition, there was a bit more inventory investment than reported in the first release. Originally, the Bureau of Economic Analysis (BEA) estimated that inventories shaved 0.1 percentage points from the topline GDP growth rate. BEA now estimates that inventory accumulation boosted overall GDP growth by 0.2 percentage points. That said, the overall story remains one of some slowing in the overall rate of GDP growth over the past year or so.

The first release of the National Income and Product Accounts (NIPA) in any given quarter does not contain estimates of the income side of the NIPA. BEA simply does not have enough data by the time the first release of the NIPA occurs to report income data. These data become available in the second release. In that regard, real Gross Domestic Income (GDI) grew at an annualized rate of 2.4% during the quarter, which is a bit stronger than the 2.1% reported rise in GDP. (In theory, GDP growth should equal GDI growth, but data limitations often lead to a slight discrepancy between the two measures of economic activity.) As shown in the middle chart, year-over-year growth rates in real GDP and real GDI have generally been tracking each other.

Income growth generally remained strong across the board in Q3. In nominal terms, wages and salaries grew 3.5% (annualized rate) on a sequential basis in Q3 and at an impressive rate of 4.6% on a year-ago basis. Proprietor’s income jumped 13.2% during the quarter. Taking all the income measures into account and adjusting for inflation shows that real disposable income (i.e., purchasing power) was up at a strong rate of 2.9% on a year-ago basis in the third quarter. Strong growth in real disposable income is a solid underlying economic fundamental that points to continued economic expansion in the foreseeable future.

Corporate profits are also included in the income side of the NIPA accounts, and we received our first look at profit growth in Q3-2019 today. Pre-tax corporate profits grew only 0.2% (not annualized in the third quarter). On a year-over-year basis, pre-tax corporate profits fell 0.8% in Q3 (bottom chart). After-tax profit growth remained in positive territory, but only barely. We forecast that pre-tax profits will grow only 2.3% in 2020 and that after-tax profits will rise at roughly the same rate. Although the underlying fundamentals of the economy generally remain solid, the economy could be vulnerable if profit growth were to falter.

Source: U.S. Department of Commerce and Wells Fargo Securities