3Q 2016 GDP

U.S. GDP Breakdown	Q215	Q315	Q415	Q116	Q216	Q316
GDP	2.6%	2.0%	0.9%	0.8%	1.4%	2.9%
Final Sales	3.2%	2.6%	1.2%	1.2%	2.6%	2.3%
Consumption	2.9%	2.7%	2.3%	1.6%	4.3%	2.1%
Durables	7.6%	6.2%	4.0%	-0.6%	9.8%	9.5%
NonDurable	2.7%	3.2%	1.2%	2.1%	5.7%	-1.4%
Services	2.2%	2.0%	2.3%	1.9%	3.0%	2.1%
Fixed Invest	4.3%	5.7%	-0.2%	-0.9%	-1.1%	-0.6%
Equipment	-0.3%	9.1%	-2.6%	-9.5%	-2.9%	-2.7%
IP	8.0%	2.1%	4.6%	3.7%	9.0%	4.0%
Comm. Const	-2.7%	-4.3%	-15.2%	0.1%	-2.1%	5.4%
Resid. Const.	14.9%	12.6%	11.5%	7.8%	-7.7%	-6.2%
Inventories	-$20.6	-$22.9	-$14.0	-$16.2	-$50.2	$22.1
Invent Chg (lvl)	$93.8	$70.9	$56.9	$40.7	-$9.5	$12.6
Net Exports	-$3.7	-$22.2	-$19.5	$0.3	$7.8	$35.6
Exports	2.9%	-2.8%	-2.7%	-0.7%	1.8%	10.0%
Imports	2.9%	1.1%	0.7%	-0.6%	0.2%	2.3%
Govt Spend	3.2%	1.9%	1.0%	1.6%	-1.7%	0.5%
Federal	0.2%	1.0%	3.8%	-1.5%	-0.4%	2.5%
State & Local	5.1%	2.5%	-0.6%	3.5%	-2.5%	-0.7%
GDP Price Index	2.3%	1.3%	0.8%	0.5%	2.3%	1.5%
PCE Price	1.8%	1.1%	0.4%	0.3%	2.0%	1.4%
PCE-core	1.8%	1.4%	1.2%	2.1%	1.8%	1.7%

Summary

Economic growth during the third quarter accelerated to an annual rate of 2.9 percent, up from 1.4 percent during the previous quarter. Excluding inventories, final sales grew at an annual rate of 2.3 percent. Inventories and exports were the main sources of strength. The inflation rate decelerated to 1.4 percent from 2.0 percent.

Analysis

The economy has gained some altitude from the dismal pace during the first half, but it is too early to celebrate. Inventory building and soybean exports, which boosted the growth rate, could be reversed during the final quarter.

It is a bit worrisome that consumer spending, which was the backbone of the economic growth last quarter, slowed markedly. Auto sales continue to be a bright spot; potential buyers were out pounding the dealer lots trying to take advantage of low interest rates and bargain promotions to replace the aging vehicles. But it is doubtful how long car sales will remain strong. Hopefully, the lower price of gasoline and the healthy job picture will make the shoppers more willing to open their wallets during the upcoming holiday shopping season. Wage gains have accelerated lending support to consumer spending. The wealth effect from higher stock and home prices should help consumer spending.

Net exports were a key driver during the quarter. A one-time surge in soybean exports was the main reason even though other exports such as machinery and capital goods have sold reasonably well. Going forward, external factors could represent strong headwinds for the economy. China's economic growth, which had been the locomotive for the global economy, is slowing markedly hurting U.S sales of everything from Napa Valley wine to Boeing aircraft. Despite the ongoing Quantitative Easing by the ECB, the Euro-zone economy is stalled. The Abenomics in Japan is stuck in the mud with the economy going nowhere.

Housing continues to decline. Since a significant portion of consumer spending is related to housing, this has hurt overall consumer expenditures. However, we shouldn't write off housing as a weak spot. Rents now exceed the monthly payments on median-priced homes boosting demand for houses. With limited new construction over the past few years, inventories are at a very low level. The housing affordability, though trending down, is still supportive of home sales.

Commercial construction, which has been depressed for quite some time, has picked up some steam. All indications are that the sector may have bottomed and should be in a rising trajectory in coming quarters. Commercial lease rates are rising. In some cases, like industrial and apartments, the market is faring well.

Unfortunately, businesses are not spending money on equipment to increase productivity and efficiency. The low price of oil has negatively impacted investments in oil-drilling and other related equipment.

The inflation gauge rose 1.4 percent below the central bank's target of 2 percent compared to 2.0 percent during the second quarter. Nevertheless, this GDP report won't prevent the FOMC from hiking the interest rate in December. After so many months of speculation, most of the members seem to think that December is a good time to pull the trigger.