Third Quarter GDP

October 30, 2014

Economic growth during the third quarter rose at an annual rate of 3.5 percent, compared to revised 4.6 percent during the second quarter. Excluding inventories, final sales grew at an annual rate of 4.2 percent from 3.2 percent previous quarter. Strong defense spending and net exports paired with sluggish consumer spending. All three inflation measures hovered below 2 percent as oil prices fell. The economy showed its true color: moderate but sustained economic growth. The level of GDP is about 8 percent above its previous peak even though historically it should be 20 percent above the peak at this stage of economic growth. On the heels of weather-beaten first quarter, the economy has rebounded nicely during the following two quarters. Thanks in part to rising oil production, imports fell while exports surged. Uncle Sam spent a lot of money to stimulate the economy. The economy still faces stiff headwinds from a number of sources. Consumer spending, outside of automobiles, were sluggish despite the fastest pace of job growth since the recession and lower gasoline prices. Now that the stock price has faltered, the wealth effect on spending could be negative in coming months. The strong export gains won't be sustained. Exports rose but the economic slowdown in China and Europe is one of the main problems. Economic problems from China to the Eurozone are slowing U.S. exports to our trading partners. Future export growth won't be as robust. In addition, the relatively healthy U.S. economy will suck in imports from overseas. Buffeted by higher home prices, the difficulty of getting mortgage credit—or the perception that it is difficult to get--- and the absence of investment buyers, the housing rebound has lost some of its bounce. It is tough to have a healthy economic recovery without housing participating as a major portion of consumer spending is related to housing recovery. The latest economic news

should come as no surprise to the FOMC which concluded its meeting yesterday. Bond purchases are over this month. Healthier U.S economy could move forward the hike in the short-term interest rate to sometime during the first half of 2015. On the other hand, the economic problems among our trading partners and the strengthening dollar could delay the increase. Also, the inflation picture should lend support to the doves as it remains well below the 2 percent target range. In short, the train has left the station and will be traveling at a steady pace of about 3 percent for a foreseeable future. Economic growth during the third quarter rose at an annual rate of 3.5 percent, compared to revised 4.6 percent during the second quarter. Excluding inventories, final sales grew at an annual rate of 4.2 percent from 3.2 percent previous quarter. Strong defense spending and net exports paired with sluggish consumer spending. All three inflation measures hovered below 2 percent as oil prices fell. The economy showed its true color: moderate but sustained economic growth. The level of GDP is about 8 percent above its previous peak even though historically it should be 20 percent above the peak at this stage of economic growth. On the heels of weather-beaten first quarter, the economy has rebounded nicely during the following two quarters. Thanks in part to rising oil production, imports fell while exports surged. Uncle Sam spent a lot of money to stimulate the economy. The economy still faces stiff headwinds from a number of sources. Consumer spending, outside of automobiles, were sluggish despite the fastest pace of job growth since the recession and lower gasoline prices. Now that the stock price has faltered, the wealth effect on spending could be negative in coming months. The strong export gains won’t be sustained. Exports rose but the economic slowdown in China and Europe is one of the main problems. Economic problems from China to the Eurozone are slowing U.S. exports to our trading partners. Future export growth won’t be as robust. In addition, the relatively healthy U.S. economy will suck in imports from overseas. Buffeted by higher home prices, the difficulty of getting mortgage credit—or the perception that it is difficult to get--- and the absence of investment buyers, the housing rebound has lost some of its bounce. It is tough to have a healthy economic recovery without housing participating as a major portion of consumer spending is related to housing recovery. The latest economic news should come as no surprise to the FOMC which concluded its meeting yesterday. Bond purchases are over this month. Healthier U.S economy could move forward the hike in the short-term interest rate to sometime during the first half of 2015. On the other hand, the economic problems among our trading partners and the strengthening dollar could delay the increase. Also, the inflation picture should lend support to the doves as it remains well below the 2 percent target range. In short, the train has left the station and will be traveling at a steady pace of about 3 percent for a foreseeable future.