



## What to Look for in 3rd-Quarter GDP Report

October 26, 2017



*Shutterstock photo*

When the Bureau of Economic Analysis revised second-quarter GDP upward to 3.1% in late September, Reuters observed that "the momentum probably slowed in the third quarter as Hurricanes Harvey and Irma temporarily curbed activity."

When the initial report of GDP for the third quarter is released Friday, the impact of the hurricanes on the economy will be the most closely watched factor. Some economists believe the GDP report will indicate the economy is rebounding

rapidly and expect 3.0% growth or better in the third quarter, but a survey of economists suggests their expectation is for growth that comes up shy of that level.

The GDP report, said Alexander Kuptsikevich, analyst for London-based FxPro.com, "should confirm or disprove the Fed's thesis that in the second half of the year the economy is gathering momentum. We have already seen signs of this acceleration in such areas as home sales and weekly employment data. In addition, strong data on durable goods orders and wholesale inventories suggest higher figures than expected in the consensus forecast of economists surveyed by the beginning of the week. Confirmation of strong data by GDP figures should give a new short-term boost to the dollar and strengthen expectations for December's Fed rate hike. In case of very strong data, markets can seriously consider the prospect of another increase in March."

"Economists polled by The Wall Street Journal expect a 2.7% annual growth rate in GDP," said Brian Davis, director of education for SparkRental.com. "If that forecast proves true, it would represent solid, though not spectacular, growth as the U.S. hasn't seen two back-to-back quarters of at least 2.7% growth since 2015."

Davis said that, while it would be short of President Donald Trump's objective of sustained 3% GDP growth, "2.7% is far from a disappointing rate."

John Boyd Jr., principal of New Jersey-based The Boyd Co. Inc., expects that the hurricanes will "soften" third-quarter GDP but believes that will be temporary.

"The recent strength of the stock market, new home sales and job market strength all provide indicators of a strong economy and reasons to think GDP will rebound in the fourth quarter, especially as tax reform comes into focus," Boyd said.

"If the economists' prediction of 3% growth is borne out, it will be an excellent sign that the economy is rebounding from the hurricanes that battered the South," said John Engle, president of Chicago-area family office merchant bank Almington Capital. "2017 has seen some welcome developments, including an increase in business investment after a couple of sluggish years."

Consumer activity will be another factor for which economists will be watching. The storms may well have depressed that metric. Consumer spending grew 3.3% in the second quarter; few economists think it will match that rate in the third quarter, but growth of 2.0% could encourage observers that the positive economic signs of 2017 could lead to even better things in 2018.

"Consumer confidence has been high," Engle said. "Solid indications from business and households would demonstrate a broad economic confidence and the necessary activity to keep the growth engine chugging."

"For all the talk of Hurricanes Harvey and Irma, most economists only foresee them dragging consumer spending down too much," Davis said. "While consumer spending will likely be lower than the healthy 3.3% rate of the second quarter, it's unlikely the storms held it back by much."

Another metric that will be watched closely is inflation. Core consumer prices (excluding food and energy) went up by 0.9% in the second quarter, which was less than half the Federal Reserve's 2% target rate.

"Economists were surprised to see low inflation of core consumer prices in the second quarter," Davis said. "Low inflation has been one reason the Federal Reserve has been hesitant to raise interest rates faster, and an uptick may well give the Fed the confidence shot they need."

"Our banking clients remain optimistic and are looking for incremental increases to GDP to support a continued optimistic economic outlook," said Brian Rhonemus of Sanford Rose Associates-Rhonemus Group. "There is more attention being paid to regulatory relief and the potential impact on tax reform."

The Commerce Department will release its report on third-quarter GDP at 8:30 a.m. Eastern on Friday.