

U.S. Data Review

- GDP: strong domestic demand, government spending, and inventory investment offset drags from net exports and residential construction
- PCE price index for September: still brisk

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Q3 GDP

- Economic output grew at a 3.4 percent annualized rate in the third quarter of 2026, a firmer result than the median expectation of an increase of 3.2 percent from the Bloomberg economist survey and a marked acceleration from the 2.2 percent gain in the prior quarter. Importantly, private domestic final demand, a metric which excludes strips away volatile government spending, net exports, and inventory investment and gives a clearer view on underlying momentum in the economy, rose 4.9 percent – faster than the advance of 4.6 percent in Q2 and the firmest pace observed since 2021-Q2. The latest results, in essence, reinforce the narrative of an economy that has thus far proven resilient to headwinds stemming from geopolitical tensions and an uncertain trade policy, among other factors.

- Similar to recent reports, the latest strength was largely fueled by households and businesses

maintaining their strong momentum. With respect to the former, personal consumption expenditures posted annualized growth of 3.8 percent in Q3, matching the pace seen in the previous quarter (contribution of 2.52 percentage points to GDP growth). Factoring into the shift, outlays for durable and nondurable items registered increases of 2.3 and 3.4 percent, respectively (versus +7.4 and +3.1 percent prior). Concurrently, spending on services rose 4.1 percent (versus +3.4 percent in Q2). Meanwhile, business fixed investment recorded yet another impressive performance in Q3, boosted by the ongoing artificial intelligence buildout. After solid gains of 9.9 and 9.0 percent in Q1 and Q2 percent, respectively, growth in this area surged by 12.7 percent, the highest observation since 2020-Q3 (contribution of 1.78 percentage points to growth). Taking a deeper look, outlays for equipment spiked by 20.9 percent, inclusive of a 37.3 percent gain in the information processing subcomponent – which captures AI-related spending. At the same time, investment in intellectual property products rose 8.4 percent, influenced by an 89.6-percent jump in software. Expenditures on nonresidential structures firmed up 5.4 percent. Relatedly, Chairman Warsh was unambiguously bullish in his assessment of equipment spending yesterday at his press conference, observing: “Capital expenditures are at a historically high share of GDP. High-tech investment is leading the acceleration. But there’s also been a broadening in other categories. And these trends bear watching.”

GDP and Related Items*

	26-Q1	26-Q2	26-Q3(a)
1. Gross Domestic Product	2.5	2.2	3.4
2. Personal Consumption Expenditures	0.7	3.8	3.8
3. Nonresidential Fixed Investment	9.9	9.0	12.7
3a. Nonresidential Structures	-9.4	0.1	5.4
3b. Nonresidential Equipment	15.5	13.4	20.9
3c. Intellectual Property Products	15.6	9.2	8.4
4. Change in Business Inventories (Contribution to GDP Growth)	0.2	-0.5	1.6
5. Residential Construction	-7.6	2.8	-3.3
6. Total Government Purchases	4.7	-0.1	5.3
6a. Federal Government Purchases	10.9	-2.4	15.8
6b. State and Local Govt. Purchases	1.4	1.2	-0.1
7. Net Exports (Contribution to GDP Growth)	0.0	-1.1	-3.3
7a. Exports	13.9	5.0	-5.7
7b. Imports	11.5	12.6	19.7
Additional Items			
8. Final Sales	2.3	2.8	1.7
9. Final Sales to Domestic Purchasers	2.3	3.8	5.0
10. Gross Domestic Income	2.5	2.6	–
11. Average of GDP & GDI	2.5	2.4	–
12. GDP Chained Price Index	3.2	6.1	2.3
13. Core PCE Price Index	3.9	3.3	2.5

* Percent change SAAR, except as noted. (a) = advance estimate.

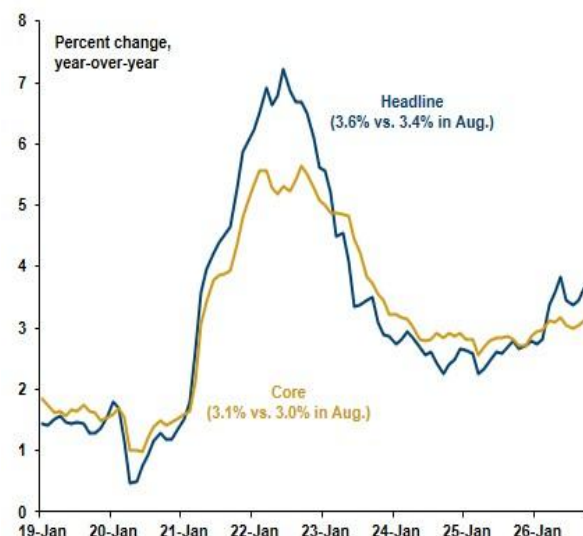
Source: Bureau of Economic Analysis via Haver Analytics

- Performance across other components varied widely. Starting first with the positives, total government spending advanced by 5.3 percent, a marked rebound from the modest annualized decline of 0.1 percent last quarter and the firmest reading since 2023-Q3 (contribution of 0.90 percentage point to growth). The latest increase was fueled entirely by federal government outlays, with this area rising by 15.8 percent (spending by state and local governments rounded up to no change). Parsing federal government expenditures further, nondefense consumption and gross investment jumped 22.2 percent, while that for national defense advanced 11.7 percent. Also in the plus column, an increase in inventories in Q3 equated to a contribution of 1.61 percentage points to GDP growth, the largest since 2025-Q1, although this area often swings widely with moves poorly correlated to the business cycle. Conversely, net exports were a sharp drag on growth (-3.32 percentage points, the biggest subtraction since 2025-Q1 when firms rushed to front-run imports ahead of the Trump administration's "Liberation Day" tariffs). Catalyzing the latest shift, imports posted a third consecutive double-digit gain (+19.7 percent) while exports eased (-5.7 percent); domestic demand remains strong, but a portion is being satisfied by imports rather than domestically produced goods. In addition, residential construction declined for the sixth time in the past seven quarters, falling 3.3 percent (subtraction of 0.12 percentage point from growth). All told, however, Chairman Warsh's observation that "Economic activity is expanding at a strong pace" appears apt at this juncture.
- In regard to prices, the GDP deflator surprised to the downside with a 2.3-percent increase in Q3, 0.9 percentage point lower than the median expectation of +3.2 percent and a marked deceleration from the 6.1-percent observation in Q2 (which was influenced in large part by the war-driven energy shock). Simultaneously, the price index for personal consumption expenditures advanced 2.1 percent (versus +5.0 percent previously). The core measure, meanwhile, increased 2.5 percent (versus +3.3 percent previously).

Consumer Prices in September

- Augmenting quarterly inflation data, today's Personal Income and Outlays report for September also from the Bureau of Economic Analysis provided a more granular view of inflation that the Fed Chairman assessed in his remarks as "elevated" and "running above the Committee's objective for close to 6 years." Specifically, the headline price index for personal consumption expenditures rose 0.5 percent (+0.491 percent with less rounding) while the core measure rose 0.3 percent (+0.317 percent) – both aligned with market expectations. The increases translated to year-over-year advances of 3.6 percent and 3.1 percent, respectively, versus 3.4 percent and 3.0 percent in August. Despite the shift that was likely anticipated by the FOMC, officials voted 10-2 to maintain the target range for the federal funds rate at 3-3/4 to 4 percent ahead of an "information-rich" period preceding the December 8-9 FOMC meeting (which includes the October 2026 CPI). With that said, we still suspect that further action (a 25-basis-point hike at that meeting) will be required to both generate further tightening in financial conditions and maintain anchored longer-term inflation expectations – both necessary for a sustainable return to 2 percent.

PCE Price Index: Headline & Core



Source: Bureau of Economic Analysis via Haver Analytics