

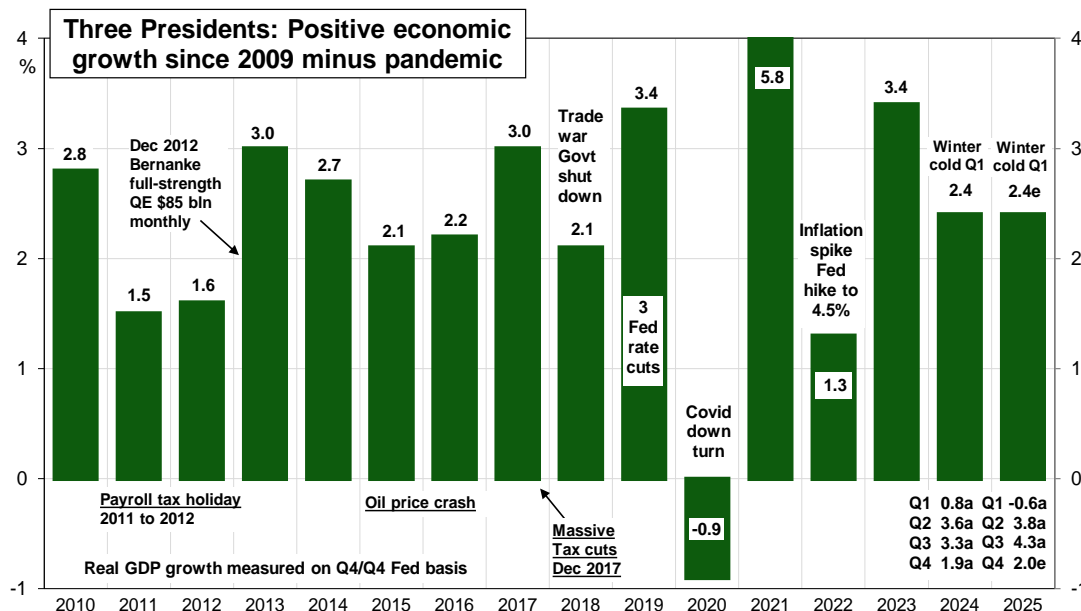
Financial Markets This Week

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4.3 GDP

Real GDP rose 4.3% Tuesday in the Q3 2025 report originally scheduled for Thursday, October 30. Worth waiting for if you are working for the White House. The consensus estimate was 3.2%, the miss in major part due to the revisions to July, August, September



real consumption expenditures even if the revisions to PCE inflation were miniscule. We thought real consumption expenditures were 2.7% in Q3 2025 and now spending is faster at 3.5%. So much for tariff uncertainty and sky-high store shelf prices. Consumer spending on autos and light trucks has been bouncing around despite the annual sales rate being quite steady around 16.4 million annual rate the last four quarters. These unit sales have now taken a hit finally to 15.4 million in Oct/Nov, and will be a Q4 drag, but real consumer spending using September as an estimate for the entire fourth quarter has considerable momentum already of positive 1.7%. If we assume real GDP will be 2.0% in Q4, then Q4/Q4 2025 growth will be 2.4%, considerably stronger than the December 9-10 meeting Fed forecasts of 1.7%. Guess those three Fed rate cuts came to the economy's rescue. AI driven-growth anyone? Consumer spending on autos was actually a 0.2 percentage point drag in Q3, contrary to expectations given the EV tax credit expiration. So let's look at AI. Investment in equipment, information processing equipment specifically: it has been contributing steadily less from a big 0.89 percentage point addition in Q1 2025, to 0.22 in Q2 and now 0.16 in Q3. Stay tuned. Growth in 2025, same as growth in 2024. Doesn't seem to matter who is in the White House. Economy is less interest-rate sensitive.

| | Q2 24 | Q3 24 | Q4 24 | Q1 25 | Q2 25 | Q3 25 |
|--|-------|-------|-------|-------|-------|-------|
| REAL GDP | 3.6 | 3.3 | 1.9 | -0.6 | 3.8 | 4.3 |
| REAL CONSUMPTION | 3.9 | 4.0 | 3.9 | 0.6 | 2.5 | 3.5 |
| CONSUMPTION | 2.6 | 2.7 | 2.6 | 0.4 | 1.7 | 2.4 |
| Durables | 0.6 | 0.6 | 0.9 | -0.3 | 0.2 | 0.1 |
| Nondurables | 0.6 | 0.7 | 0.5 | 0.3 | 0.3 | 0.5 |
| Services | 1.5 | 1.4 | 1.2 | 0.4 | 1.2 | 1.7 |
| INVESTMENT | 1.4 | 0.2 | -1.3 | 3.8 | -2.7 | 0.0 |
| Business Plant & Equipment and Intellectual Property | -0.1 | -0.1 | -0.3 | -0.1 | -0.2 | -0.2 |
| Homes | 0.4 | 0.4 | -0.2 | 1.0 | 0.4 | 0.3 |
| Inventories | 0.0 | 0.1 | 0.0 | 0.3 | 0.8 | 0.3 |
| EXPORTS | -0.1 | -0.2 | 0.2 | 0.0 | -0.2 | -0.2 |
| IMPORTS | 1.2 | -0.1 | -0.9 | 2.6 | -3.4 | -0.2 |
| GOVERNMENT | 0.1 | 1.0 | -0.1 | 0.0 | -0.2 | 0.9 |
| Federal defense | -1.1 | -1.4 | 0.0 | -4.7 | 5.0 | 0.7 |
| Federal nondefense | 0.6 | 0.9 | 0.6 | -0.2 | 0.0 | 0.4 |
| State and local | 0.3 | 0.5 | 0.2 | -0.3 | 0.0 | 0.2 |
| State and local | 0.0 | 0.1 | 0.1 | -0.1 | -0.4 | 0.0 |
| State and local | 0.3 | 0.4 | 0.3 | 0.2 | 0.3 | 0.2 |

Below line: Percentage point contributions to Q3 2025 4.3% real GDP
Updated estimate for Q3 is Thursday, January 22

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