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TMC Research's US GDP Nowcast For Q3 Indicates A Slower But Still Solid Growth Rate

Key Points:

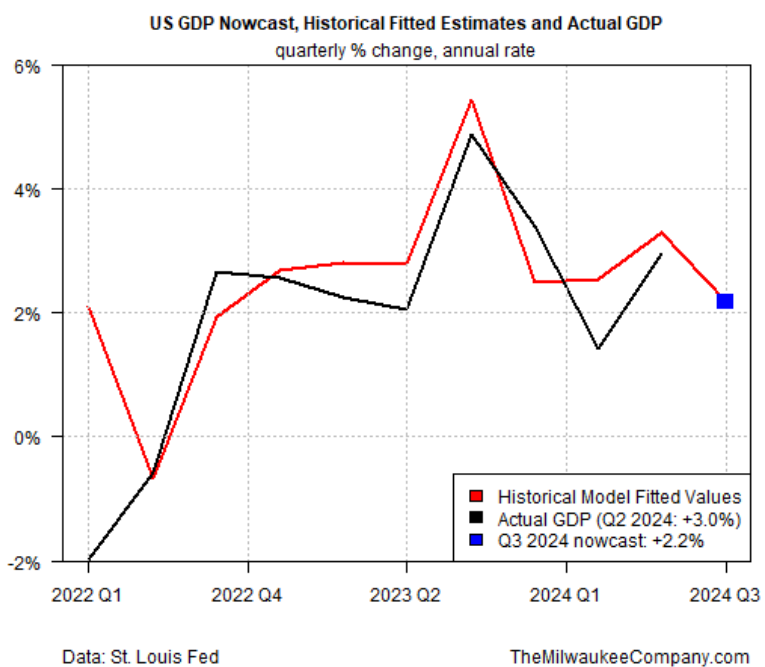
- TMC Research's GDP Nowcast model estimates output rising 2.2% for the third quarter
- The current Q3 nowcast reflects a slowdown from Q2's strong 3.0% increase
- Today's nowcast suggests that the US economic expansion will continue through the end of this quarter

A number of indicators suggest that the risk of a US recession is rising, but current expectations for the upcoming third-quarter GDP report still estimate moderately high odds that the expansion will continue for the three months through September.

TMC Research's proprietary GDP nowcast model for Q3 indicates output is expected to rise 2.2% (for the median estimate). That marks a downshift from Q2's strong 3.0% increase, but the current nowcast reflects economic activity that's still unfolding at a respectable pace. If the nowcast is correct, a recession is highly unlikely to start in Q3.

Our nowcast is built with 11 factors (see list below) and uses the historical relationships for these variables relative to GDP to estimate current conditions. As shown by the chart, the model has performed reasonably well in capturing GDP's ebb and flow in recent quarters, based on fitted data ex post. Although that's encouraging, the model – any model – is, at best, a rough approximation of actual conditions and a particular future outcome, which is inherently uncertain.

Roughly half of the Q3 data overall has been published. As such, the model's current profile only reflects a portion of the full scope of data that will ultimately define the current quarter's conditions. The question is whether the incoming numbers between today and the government's first estimate of Q3 GDP (scheduled for October 30) will, on balance, help or hinder the current nowcast? It's impossible to know. But using the moderately positive nowcast as a guide suggests the following: Short of a sharp economic slowdown in the economy in the weeks ahead, the odds still appear to favor a case for a moderate growth rate in Q3.





TMC Research's GDP nowcast is generated with the following data sets:

- US consumer price index (inflation)
- Effective Fed funds rate
- Unemployment rate
- Personal consumption expenditures
- Industrial production
- Non-farm private payrolls
- Manufacturing and trade industries sales
- Personal income
- Net exports
- Gross private domestic investment
- Government expenditures

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