

Economy Poised for More Growth

To reiterate, this Thursday morning we expect the government to report a huge, and virtually unprecedented, surge of a 33.4% annualized growth rate in real GDP growth for the third quarter. There are still a few monthly reports due this week that could affect our forecast, but only slightly.

Obviously, the US will not keep growing at this rate, but the question remains about how much might it slow? Believe it or not, because we have September data – the “jumping off point” for the fourth quarter – we can start to make some early estimates about reported future growth rates. Right now, an annualized growth rate of 5% is highly possible and it could be even higher.

All of this depends on COVID-related shutdowns. As the US conducts more than 1 million tests per day, and uses highly sensitive tests as well, there has been a new “surge” in COVID-19 cases. In spite of this surge in new cases, deaths have remained relatively stable. This means the “case fatality rate” is falling. Nonetheless, because of fear about the surge in new cases, some politicians, like Illinois Governor Pritzker, have shutdown activities like indoor dining. So far, these new shutdowns are not widespread enough to alter the course of the macro-economy in any significant way, but that could obviously change.

If it doesn't, and US economy holds its September activity level, the fourth quarter is looking strong. Take cars and light trucks, for example, which sold at a 16.34 million annual rate in September versus the third quarter (July, August and September) average of 15.38 million. In other words, auto sales were an annualized 27.3% higher in September than the third quarter average. So, if vehicle sales flatline in the fourth quarter (October, November and December), they would be 27.3% higher, at annual rate, versus the third quarter average. The same goes for retail sales outside the auto sector:

even if they remain unchanged in October, November, and December, the September level was already 4.7% annualized above the average level for Q3.

Single-family home building shows a similar pattern. Without any change in single-family housing starts for the last three months of the year, the quarterly average would still show growth at a 28.8% annual rate versus the Q3 average. Note that this is not true for multi-family housing starts, but those starts are so volatile from month to month that the jumping off point in September is less meaningful.

Rest assured we are not just cherry-picking the very best data. The total number of hours worked in the private sector were up at a 3.9% annual rate in September versus the Q3 average. Manufacturing output was up at a 0.8% annual rate in September versus the Q3 average. Both the ISM Manufacturing and ISM Service indexes finished September higher than the average for the third quarter. So, while some data reflect very strong growth and other data reflect more moderate growth, the general direction of the economy remains positive.

Given that we are nearing a presidential election, there are many unknowns regarding public policy for the next several months. Future tax rates on regular income, capital gains, and dividends, spending, tariffs, regulations,...all up for grabs. Who knows, maybe even the addition of states, additional limits on the Senate filibuster, and Court packing, as well.

That's why it's important to take stock of where we are right now. A full recovery from the disaster earlier this year is a long way off, but we believe that recovery started several months ago, and the early read is that the fourth quarter should be solid, as well.

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|-----------------|---------------------------------|-----------|------------------|-----------|-----------|
| 10-26 / 9:00 am | New Home Sales – Sep | 1.025 Mil | 1.025 Mil | 0.959 Mil | 1.011 Mil |
| 10-27 / 7:30 am | Durable Goods – Sep | +0.5% | +2.0% | | +0.5% |
| 7:30 am | Durable Goods (Ex-Trans) – Sep | +0.4% | +0.2% | | +0.6% |
| 10-29 / 7:30 am | Initial Claims – Oct 24 | 780K | 755K | | 787K |
| 7:30 am | Q3 GDP Advance Report | 31.8% | 33.4% | | -31.4% |
| 7:30 am | Q3 GDP Chain Price Index | 2.9% | 3.4% | | -1.8% |
| 10-30 / 7:30 am | Personal Income – Sep | +0.3% | 0.0% | | -2.7% |
| 7:30 am | Personal Spending – Sep | +1.0% | +1.0% | | +1.0% |
| 8:45 am | Chicago PMI | 58.0 | 59.0 | | 62.4 |
| 9:00 am | U. Mich Consumer Sentiment- Oct | 81.2 | 81.2 | | 81.2 |