ECONOMIC UPDATE

REGIONS

December 23, 2025

Q3 2025 GDP – 1st Estimate: Strong Headline Print Leaves Some Unanswered Questions

- The BEA's initial estimate shows real GDP grew at an annualized rate of 4.3 percent in Q3 after growth of 3.8 percent in Q3
- Consumer spending and net exports were the main drivers of Q3 growth, residential fixed investment and inventories were drags on growth

The BEA's initial estimate shows real GDP grew at an annual rate of 4.3 percent in the third quarter of 2025, a faster pace than we (3.7 percent) and the consensus (3.2 percent) anticipated, and the fastest quarterly growth rate since Q3 2023. A faster pace of growth in real consumer spending and a narrower trade deficit were the main drivers of Q3 growth, combining to contribute 3.98 percentage points to the top-line growth rate. We typically caution that the initial estimate of GDP in any given quarter is based on highly incomplete source data and, as such, prone to sizable revision as revised and more complete source data become available. While today's release is, thanks to delays in data collection and processing due to the government shutdown, the initial look at Q3 GDP, BEA notes that this release combines data and methods typically used to produce their first two estimates of GDP in any given quarter. So, we're not really sure where that leaves us in terms of potential revisions to this particular estimate. We will, however, note that the details of the data are a bit less impressive than is the headline growth print. In a sense, then, the BEA's first pass at Q3 GDP is in keeping with many other recent releases, in that some care is required in interpreting the data. That said, despite raising as many questions as it answers, today's release does not alter our somewhat constructive view of the state of the U.S. economy.

Real consumer spending is reported to have risen at an annual rate of 3.5 percent in Q3, with goods spending growing at a 3.1 percent rate and services spending growing at a 3.7 percent rate. While the 3.5 percent growth rate matches what for some time we had been incorporating into our tracking estimate of Q3 real GDP growth, on December 5 the BEA released the September data on personal income and spending, which showed real consumer spending growing at a 2.7 percent pace in Q3. This suggests spending growth was much faster in September than BEA first reported. Two elements of today's estimate jump out at us; first, real spending on motor vehicles and parts is reported to have declined at a 6.8 rate in Q3 despite an increase in unit sales of new vehicles in Q3. Also, real spending on recreational goods and vehicles is reported to have grown at a rate of 15.7 percent, which BEA says "primarily" reflects higher spending on information processing equipment and which added half a point to growth in total real consumer spending. Much of the growth in services spending is attributable to increased outlays on health care, particularly outpatient care and hospital and nursing home services. Still, this leaves us with another solid increase in our proxy of real discretionary spending.

Real business fixed investment grew at an annual rate of 2.8 percent in Q3, a marked slowdown from the 7.3 percent pace posted in Q3. To some extent, that reflects a more trend-line increase in spending on intellectual products after the 15.0 percent annualized increase logged in Q2. Real spending on equipment and machinery also grew at a slower pace than was the case in Q2 but, again, that is more a function of how rapid growth was in Q2, so the 5.3 percent growth rate in Q3 is not to be discounted. It is, however, still the case that declining business spending on structures remains a material drag on growth in overall business investment.

A narrower trade deficit added 1.59 percentage points to top-line real GDP growth in Q3. Exports of U.S. goods and services grew at an 8.8 percent rate after having been battered over the three previous quarters, while imports of goods into the U.S. fell at a 4.7 percent rate. As had been the case over the first two quarters of 2025, the Q3 trade data were impacted by businesses and consumers reacting to sharp shifts in U.S. trade policy. The same is true of the data on business inventories; after a surge in Q1, inventories of consumer and capital goods were drawn down in Q2 and Q3, thus acting as a drag on top-line real GDP growth.

The impressive real GDP growth print is somewhat at odds with the 2.4 percent growth in real gross domestic income, the second straight quarter with a large disparity in favor of real GDP growth. Corporate profits, before and after tax, posted solid gains in Q3, both sequentially and year-on-year. Both after-tax personal income and corporate cash flows stand to benefit from changes in the tax code signed into law this summer, which will support growth over 1H 2026. While we expect the shutdown to take up to 1.50 percentage points off Q4 real GDP growth, much of that drag will be reversed in the Q1 2026 GDP data while the impacts of other policy changes, primarily trade policy, figure to be much less pronounced in 2026. As such, we continue to hold a more constructive outlook on growth than do many others.

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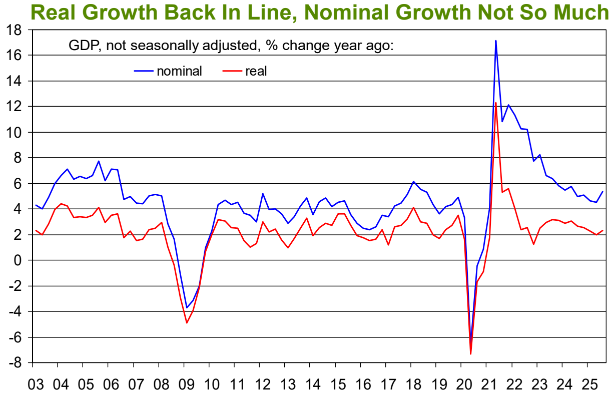
Real Growth Back In Line, Nominal Growth Not So Much



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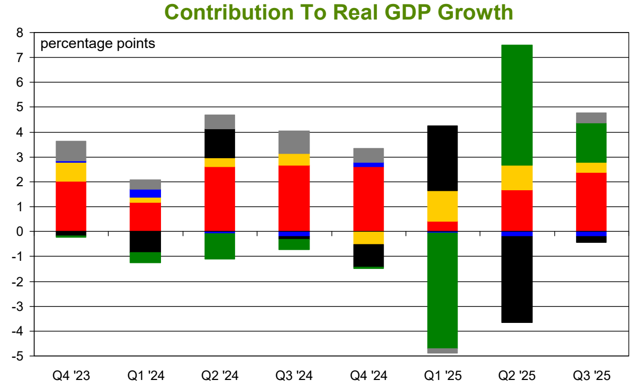
Contribution To Real GDP Growth



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