ECONOMIC UPDATE

REGIONS

October 29, 2026

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Q3 2026 GDP – 1st Estimate: Private Domestic Demand Driving The Bus

- The BEA's initial estimate shows real GDP grew at an annualized rate of 3.4 percent in Q3 after growth of 2.2 percent in Q2
- Consumer spending and business fixed investment were the main drivers of Q3 growth, more than offsetting the drag from net exports

The BEA's initial estimate shows real GDP grew at an annual rate of 3.4 percent in the third quarter of 2026, between what we (3.7 percent) and the consensus (3.2 percent) anticipated. As we expected, robust growth in consumer spending and business fixed investment were the main drivers of Q3 growth, more than offsetting a significant drag from net exports, with a considerably wider trade deficit knocking 3.32 percentage points off top-line real GDP growth. That, however, is far less of a concern than it may seem, given that industrial supplies and non-auto capital goods have dominated imports of goods into the U.S. over the past several months. While treated as a drag on real GDP growth upon arrival in the U.S., the reality is that these goods will be used in production of final goods in subsequent quarters, thus adding to real GDP growth down the line. The not seasonally adjusted data show real GDP up 2.2 percent year-on-year in Q3 while nominal GDP posted an over-the-year increase of 6.1 percent. This continues the undesirable trend that has been in place for some time now, with the gap between nominal and real growth a proxy for the pace at which prices are increasing. While the pace of real GDP growth has settled back into the trend rate that prevailed over the course of the pre-pandemic expansion, the longest U.S. expansion on record, the gap between nominal and real GDP growth remains considerably wider than the gap seen over the pre-pandemic expansion. As long as real GDP growth hovers around its longer-term trend rate while nominal GDP growth remains well above its longer-term trend rate, the FOMC will remain in play. As is our standard practice, we'll note here 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 more complete and revised source data become available.

To our earlier point, real private domestic demand – combined household and business spending adjusted for price changes – grew at an annual rate of 4.9 percent in Q3. Barring the period during which the pandemic and the policy response to it were wreaking havoc with the data, this is the fastest quarterly growth since Q4 2017. Real consumer spending grew at an annual rate of 3.8 percent in Q3, adding 2.52 percentage points to top-line real GDP growth. One caveat, however, is that expenditures on health care grew at an annual rate of 4.9 percent, which helped fuel growth in total services spending, while higher outlays on prescription drugs made a meaningful contribution to growth in goods spending. Note that the bulk of health care expenditures are made on behalf of, not by, consumers, and further note that the initial estimate of spending on health services is based on highly incomplete source data and thus could see sizable revision in the next two estimates of Q3 GDP. That having been said, Q3 saw continued robust growth in discretionary services spending (such as travel, lodging, entertainment, and recreation), suggesting plenty of capacity for spending. It remains to be seen if discretionary spending will hold up in Q4 under the weight of the latest round of price increases.

Real business fixed investment grew at an annual rate of 12.7 percent in Q3, adding 1.78 percentage points to top-line real GDP growth. Real outlays on equipment and machinery grew at an annual rate of 20.9 percent which, outside of the pandemic period, is the fastest quarterly growth since Q3 2011, and outlays in this category are up 14.1 percent year-on-year. Computer equipment, communications equipment, and industrial equipment were the main drivers of growth, reflecting AI related investment, including data centers and power transmission capacity. Investment in intellectual property products, the bulk of which consists of spending on R&D and computer software, was up at an 8.4 percent rate, slower than the prior two quarters but nonetheless extending the run of solid growth in this component. Real business spending on structures rose at an annual rate of 5.4 percent, with structures tied to power generation and energy exploration/production the main drivers. In contrast, residential fixed investment contracted at a 3.3 percent rate, dragged down by falling single family construction.

The widest trade deficit since Q1 2025, when firms pulled orders forward in anticipation of higher tariff rates, knocked over three percentage points off Q3 real GDP growth. U.S. exports contracted at a 5.7 percent rate while imports into the U.S. rose at a 19.7 percent rate. Again, though, the composition of goods imports is highly favorable for future production, which is far more relevant than the treatment in GDP accounting. With much of the surge seen in early-2025 having been pared down, inventory restocking contributed 1.61 percentage points to Q3 real GDP growth, and we look for inventory restocking to also add to Q4 growth.

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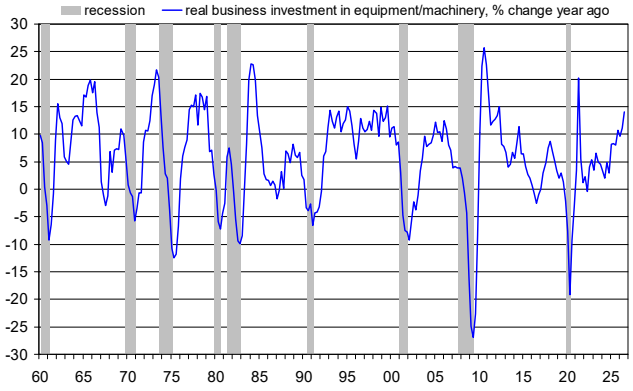
Amped Up Equipment Spending Fueling Top-Line Growth



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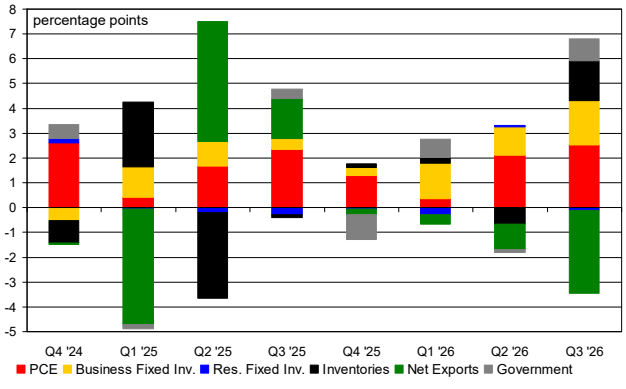
Contribution To Real GDP Growth



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