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Weekly Commentary

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GDP heats up

Maybe we shouldn't be surprised by any economic reports any more. At least not during the current Federal Reserve tightening campaign. Unlike past instances in which the Fed raised interest rates to slow the economy in a usually successful bid to reduce inflation, U.S. gross domestic product (GDP) keeps humming along. It grew 4.9% year-over-year in the third quarter, stronger than expected and substantially higher than the growth rate in the second quarter of 2.1%. The engine continues to be spending, by consumers, governments and businesses.

What does this mean for the Fed? While we think the FOMC won't change the federal funds rate at its meeting on Wednesday, it bolsters the chance it will later this year or early 2024. Even though the markets put that chance well below 50%, it's still possible given that the prices component of the GDP report jumped to 3.5% from 1.7% in the last quarter. Any upward pressure on prices concerns policymakers. Combined with other inflation data that remains too high—and the heat the labor market continues to radiate—and they may well decide on another hike. That should be continued good news for the broad liquidity space.

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