First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Elass – *Senior Economist*
Andrew Opdyke, CFA – *Senior Economist*
Bryce Gill – *Economist*
Nate Gerze, CFA – *Economist*
Braden Spiech – *Economic Analyst*

630-517-7756 • www.ftportfolios.com

October 26, 2026

Solid Real GDP Growth in Q3

We estimate the US economy grew at a 3.3% annual rate in the third quarter. Solid. Robust even, considering that net immigration is near zero and possibly negative, while Baby Boomers continue to gradually drift into retirement.

However, don't get too excited. Even if we get 3.3% for Q3, Real GDP will be up a modest 2.0% from a year ago. And there are still signs that much of the growth is concentrated in AI and data centers. Excluding that, the economy is tepid and could possibly get weaker if the Federal Reserve keeps raising short-term interest rates.

How strong is the tech sector? Even if data center construction is (oddly) unchanged in September, staying at the August level, nominal spending on data centers will be up at an annual rate of 139% in the third quarter. That is NOT a typo. Meanwhile, the US production of semiconductors and related electronic components rose at a 47% rate in Q3, the fastest pace on record for any quarter going back to at least the early 1970s.

The bottom-line is that AI and data centers are booming, the rest of the economy is not.

Consumption: Auto sales declined at a 5.2% annual rate in Q3. However, "real" (inflation-adjusted) retail sales excluding autos rose at a 3.5% rate and real service spending – which makes up the lion's share of consumer spending – appears up at close to a 4.0% pace. Combined, this brings our estimate of real consumer spending to a 3.7% rate, adding 2.5 points to the real GDP growth rate (3.7 times the consumption share of GDP, which is 68%, equals 2.5).

Business Investment: We estimate a 12.3% growth rate for business fixed investment with widespread gains in equipment, commercial construction, and intellectual property. If we are right, with the exception of the immediate bounce back in 2020 after the COVID shutdown-induced collapse in the first half of that year, that would be the fastest growth for business fixed investment for any quarter since 2011. A 12.3% growth rate would add 1.8 points to real GDP growth. (12.3 times the 15% business investment share of GDP equals 1.8).

Home Building: Residential construction looks to have grown at a respectable 5.5% annual rate in the third quarter, but don't get optimistic, yet. Housing still faces headwinds in the form of local regulations, a lack of workers, higher mortgage rates, and a strict immigration policy that makes more units available for rent. In the meantime, look for a 0.2 point add for Q3. (5.5 times the 4% residential construction share of GDP equals 0.2).

Government: We estimate that government purchases rose at a 1.7% annual rate in Q3 after being roughly unchanged in Q2, which should add 0.3 points to the GDP growth rate (1.7 times the 17% government purchase share of GDP equals 0.3).

Trade: The trade deficit soared in the third quarter due to a surge in goods imports and a modest decline in goods exports, although this forecast may change when a preliminary trade report is released Wednesday morning. For now, we're projecting net exports will reduce the Q3 real GDP growth rate by 3.2 percentage points. That's huge and is partially due to the AI/data center buildout, which is driving a surge in imports of tech equipment, including semiconductors from Taiwan.

Inventories: We estimate that businesses added to inventories in the third quarter after drawdowns in each of the previous five quarters. Going back to at least the late 1940s we have never experienced such a long drawdown in inventories without a recession. However, some of it is due to the unusual nature of the Trump tariffs, which allowed for an inventory surge in early 2025 to front-run those tariffs. The growth in inventories in Q3 should add 1.7 points to real GDP growth.

Add it all up, and we get a 3.3% annual real GDP growth rate for the third quarter, which masks extremely rapid growth in AI/data centers and slow growth elsewhere.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-27 / 7:30 am	Durable Goods – Sep	+1.9%	**+2.1%**		-0.1%
7:30 am	Durable Goods (Ex-Trans) – Sep	+0.5%	**+0.8%**		+0.2%
9:00 am	New Home Sales – Sep	0.650 Mil	**NA**		0.684 Mil
10-29 / 7:30 am	Initial Claims – Oct 24	198K	**196K**		194K
7:30 am	Q3 GDP Advance Report	3.2%	**+3.3%**		+2.2%
7:30 am	Q3 GDP Chain Price Index	3.1%	**+1.9%**		+6.1%
7:30 am	Personal Income – Sep	+0.3%	**+0.3%**		+0.2%
7:30 am	Personal Spending – Sep	+0.6%	**+0.6%**		+0.9%
10-30 / 7:30 am	Q3 Employment Cost Index	+0.8%	**+0.8%**		+0.9%
8:45 am	Chicago PMI – Oct	56.0	**54.9**		58.8

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.