

STATE GDP ROARS IN Q3 OF 2017

State-by-state GDP can give us good insight as to which states are growing the fastest and which industries are driving the growth. Unfortunately, these detailed numbers come out nearly 4 months after the quarter ends. Last quarter, state-by-state GDP for Q2 looked promising with 49 out of 50 states seeing big increases in GDP. States posted even better results in Q3 of 2017 with every state posting sizable increases in GDP. At this point, it is safe to say that Q4 GDP finished the year lower but still strong.

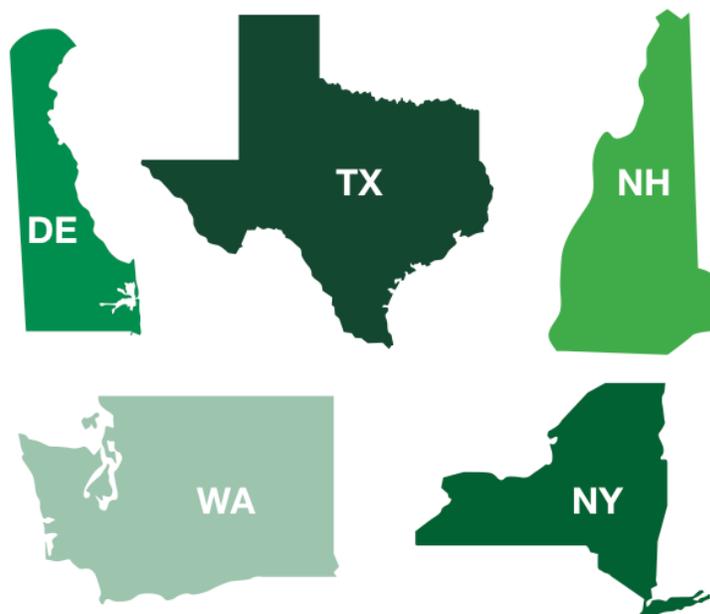
With increasingly impressive results, 45 states had 2% plus GDP growth for Q3, compared to 39 states in Q2. The top 5 performing states varied by geographic region this quarter, led by Delaware with a 5.7% increase in Q3 (compared to 0.4% in Q2), Texas (5.0% in Q3 vs. 6.2% in Q2), New Hampshire (4.4% in Q3 vs. 2.9% in Q2), Washington (4.3% in Q3 vs. 2.7% in Q2), and lastly, New York (4.0% in Q3 vs. 1.2% in Q2).

California's state-by state GDP story continues to show substantial growth with 3.4% in Q3 versus 2.1% in Q2. Lest we forget those numbers are huge increases for the largest state economy compared to Q1's dismal report of 0.01% growth. New York was in the top 5 this quarter with a stunning jump from 1.2% in Q2 to 4.0% in Q3.

Durable goods manufacturing was the leading contributor to national GDP (up 7.5%) for the sixth consecutive quarter. Manufacturing was the leading contributor to Oregon's growth of 3.8% in Q3 (up from 2.9% in Q2), making it the 9th fastest growing state in the country. Information services grew by 9.0%, mining also increased by 9.7% and was the leading contributor to growth in Texas.

It appears that the hurricanes that hit Florida and Texas hard within the quarter did not have a devastating effect on GDP. Texas held strong as the second-best performing state even though GDP was slightly down from 6.2% in Q2 to 5.0% in Q3.

TOP 5 PERFORMING STATES



ALL STATES HAD POSITIVE GROWTH FOR Q3



STATE GDP ROARS IN Q3 OF 2017 CONTINUED

Florida was also down slightly in Q3 at 3.0% from 3.6% in the prior quarter. Will we see these states be more heavily impacted in Q4? Possibly. And, what about the impact of the California wildfires and mudslides? We could still see these natural disasters impact future GDP results. In the long run though, infrastructure spending and repairing the damages could cause economic growth to grow substantially after a short-term slowdown.

Despite the recent sell-off, the markets had the best two-week start to the year since 1987.¹ Wages for high school graduates were reported to be growing faster than those of college graduate wages recently.² As I mentioned earlier, durable goods manufacturing was the leading contributor to national GDP — an industry where a high school level education is common. Increases in infrastructure spending indicate this trend could remain strong. With the unemployment rate dropping to a 17-year low in November, all wages should be on the rise for all workers in the coming months.³ We very much expect the economy to remain strong in early 2018.

So far the economy appears to be “all gas, no breaks”. However, if the economy remains strong and wages continue to rise, inflation may start to rise causing the Fed to step on the breaks hard. Also...keep an eye on housing. With rates on the rise, home prices could drop drastically and over the past two decades that has been paired with stock market declines.

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Sources are from the following unless otherwise noted: “BEA: News Release: Gross Domestic Product by State: Third Quarter of 2017.” Bea.gov. 24 Jan. 2018.

¹ Imbert, Fred. “Stocks finish at record highs, S&P 500 has best start to a year since 1987.” CNBC. 9 Jan. 2018.

² Chaney, Sarah. “Earnings Pace Rises for Less Educated.” The Wall Street Journal, 20 Jan. 2018.

³ Lucia Mutikani. “U.S. jobless claims drop to near 45-year low.” Reuters. 8 Feb. 2018.

