First Trust

Data Watch

November 23, 2010 • 630.517.7756 • http://www.ftportfolios.com

3RD QUARTER GDP (PRELIM)

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

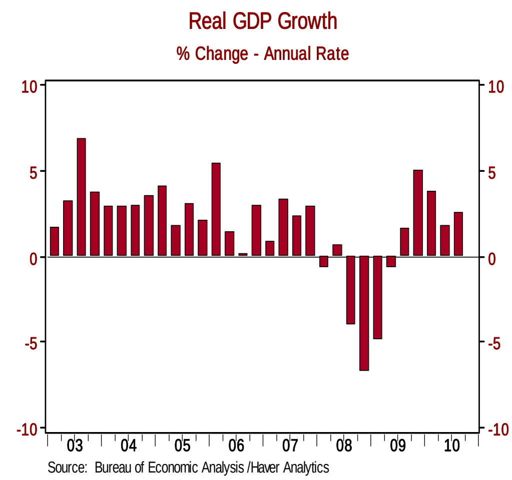
- Real GDP was revised up to a 2.5% annual growth rate in Q3 from an original estimate of 2.0%. The consensus had expected 2.4%.

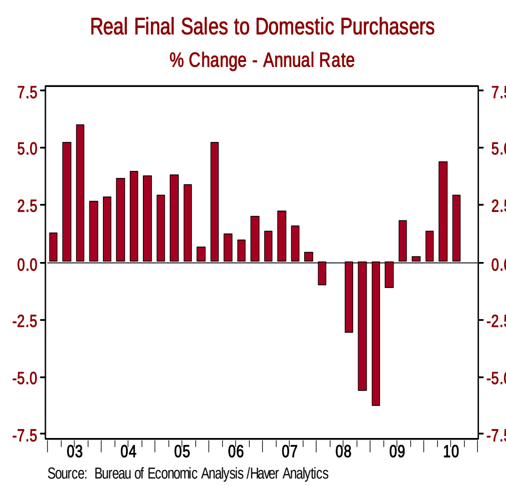
- The largest upward revisions were for business investment in equipment/software, net exports, and personal consumption. Inventories and business investment in structures were revised downward.

- The largest positive contributions to the real GDP growth rate in Q3 were personal consumption, inventories, and business investment in equipment/software. The weakest component, by far, was net exports.

- The GDP price index was unrevised at a 2.3% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised to a 4.8% annual rate from a prior estimate of 4.2%.

Implications: The US economy is accelerating into the end of the year and corporate profits are now at a record high. Real GDP growth was revised up to a 2.5% annual rate in Q3 and the "mix" of growth was more favorable than previously estimated, with upward revisions to personal consumption, business investment, and net exports. Meanwhile, inventories were revised down, leaving more room for future growth. In the past two quarters, real GDP has grown at a tepid 2.1% annual rate. However, we believe this supposed "soft patch" is largely the result of difficulties the government is having with seasonally-adjusting imported oil prices. That's why the government says trade has been such a huge drag on real GDP growth in Q2/Q3. Excluding trade from the GDP numbers gives us the growth rate of domestic purchases, which are up at a strong 4.7% annual rate. If we're right on the oil price issue, look for a "pop" in the GDP growth rate in Q4, even over and above the actual acceleration in the economy. Today's GDP report also showed corporate profits hitting a record high, growing at an 11.5% annual rate in Q3. The gain in profits in Q3 was mostly powered by domestic financial companies, whose profits increased at a 46% rate. Profits from abroad fell slightly. Bottom-line: loose monetary policy has already gained traction. Nominal GDP is up 4.5% versus a year ago. We don't need quantitative easing.





3rd Quarter GDP *Seasonally Adjusted Annual Rates*	Q3-10	Q2-10	Q1-10	Q4-09	4-Quarter Change
Real GDP	**2.5%**	1.7%	3.7%	5.0%	3.2%
GDP Price Index	**2.3%**	1.9%	1.0%	-0.2%	1.2%
Nominal GDP	**4.8%**	3.7%	4.8%	4.7%	4.5%
PCE	**2.8%**	2.2%	1.9%	0.9%	2.0%
Business Investment	**10.3%**	17.2%	7.8%	-1.4%	8.3%
Structures	**-5.8%**	-0.5%	-17.8%	-29.2%	-14.0%
Equipment and Software	**16.8%**	24.8%	20.5%	14.6%	19.1%
Contributions to GDP Growth (p.pts.)	**Q3-10**	**Q2-10**	**Q1-10**	**Q4-09**	**4Q Avg.**
PCE	**2.0**	1.5	1.3	0.7	1.4
Business Investment	**1.0**	1.5	0.7	-0.1	0.8
Residential Investment	**-0.8**	0.6	-0.3	0.0	-0.1
Inventories	**1.3**	0.8	2.6	2.8	1.9
Government	**0.8**	0.8	-0.3	-0.3	0.3
Net Exports	**-1.8**	-3.5	-0.3	1.9	-0.9

Source: Commerce Department