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# 3rd Quarter GDP (Final)

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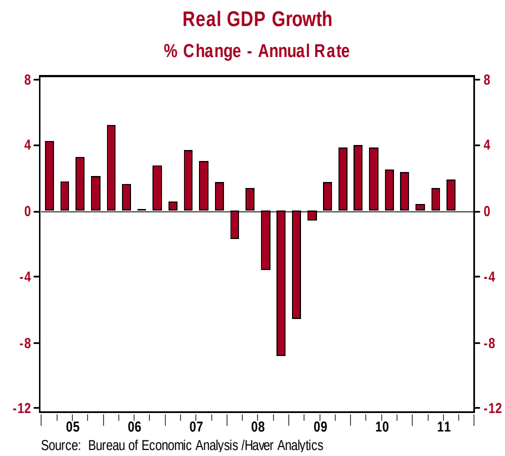
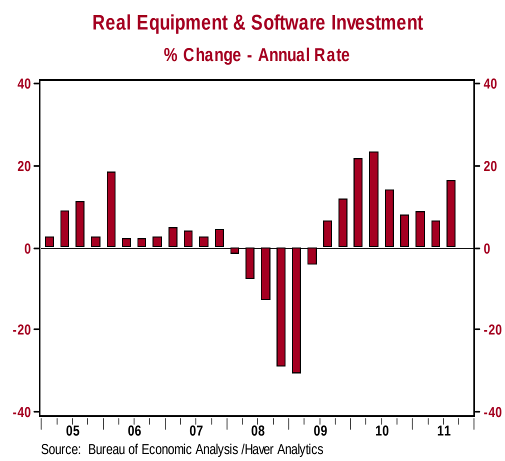
- Real GDP growth in Q3 was revised down slightly to a 1.8% annual rate from a prior estimate and consensus expected 2.0%.
- The largest downward revision *versus last month's estimate* of Q3 real GDP growth was for consumer spending. Inventories were revised up slightly.
- The largest positive contributions to the real GDP growth rate in Q3 were from business investment and consumer spending. The weakest component of real GDP was inventories.
- The GDP price index was revised to a 2.6% annualized rate of change from a prior estimate of 2.5%. Nominal GDP growth – real GDP plus inflation – was revised to a 4.4% annual rate in Q3 versus a prior estimate of 4.6%. Nominal GDP is up 3.9% versus a year ago.

**Implications**: Forget about the GDP report for a moment – it told us nothing new about the economy. The big news this morning was that initial claims for unemployment benefits fell 4,000 to 364,000, the second week below 370,000 and the lowest level since April 2008, well before the collapse of Lehman Brothers. Continuing claims for regular state benefits declined 79,000 to 3.55 million, the lowest since September 2008. Based on these figures, it looks like a strong month for payroll growth in December. Some analysts have tried to dismiss the big drop in claims, focusing instead on raw data (before seasonal adjustment) which were 418,000 last week. But unadjusted claims always rise at this time of year. We find it interesting that the unrelenting pessimists ignored the raw data back in August/September when unadjusted claims fell as low as 329,000. On GDP, there is not much "news" in today's report, showing the economy expanded at a 1.8% annual rate in the third quarter, which ended three months ago. Real GDP growth was very close to what the consensus expected. Corporate profits were revised down slightly for Q3, but still stood at a record high in Q3, and should increase again in Q4. Adding up both real growth and inflation, nominal GDP grew 4.4% at an annual rate in Q3, down slightly from the prior estimate of 4.6%. Nominal GDP is up 3.9% from a year ago, which means that a zero percent federal funds rate is too loose. The economy does not need a third round of quantitative easing, nor does it need more temporary fiscal "stimulus." In fact, the Fed should be raising interest rates while Congress cuts spending. Using data released so far, our forecast for Q4 real GDP is 3.5-4%, while the consensus stands at 2.8%.




| 3rd Quarter GDP<br>Seasonally Adjusted Annual Rates | Q3-11 | Q2-11 | Q1-11 | Q4-10 | 4-Quarter Change |
|---|---|---|---|---|---|
| Real GDP | 1.8% | 1.3% | 0.4% | 2.3% | 1.5% |
| GDP Price Index | 2.6% | 2.5% | 2.5% | 1.9% | 2.4% |
| Nominal GDP | 4.4% | 4.0% | 3.1% | 4.2% | 3.9% |
| PCE | 1.7% | 0.7% | 2.1% | 3.6% | 2.0% |
| Business Investment | 15.7% | 10.3% | 2.1% | 8.7% | 9.1% |
| Structures | 14.4% | 22.6% | -14.4% | 10.6% | 7.4% |
| Equipment and Software | 16.2% | 6.3% | 8.7% | 8.0% | 9.7% |
| **Contributions to GDP Growth (p.pts.)** | **Q3-11** | **Q2-11** | **Q1-11** | **Q4-10** | **4Q Avg.** |
| PCE | 1.2 | 0.5 | 1.5 | 2.5 | 1.4 |
| Business Investment | 1.5 | 1.0 | 0.2 | 0.8 | 0.9 |
| Residential Investment | 0.0 | 0.1 | -0.1 | 0.1 | 0.0 |
| Inventories | -1.4 | -0.3 | 0.3 | -1.8 | -0.8 |
| Government | 0.0 | -0.2 | -1.2 | -0.6 | -0.5 |
| Net Exports | 0.4 | 0.2 | -0.3 | 1.4 | 0.4 |

Source: Commerce Department