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3rd Quarter GDP (Preliminary)

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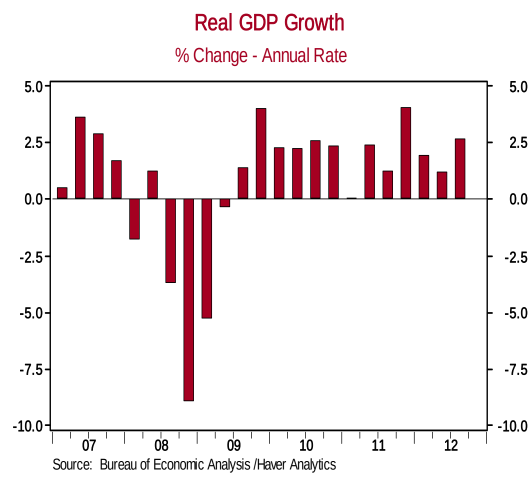
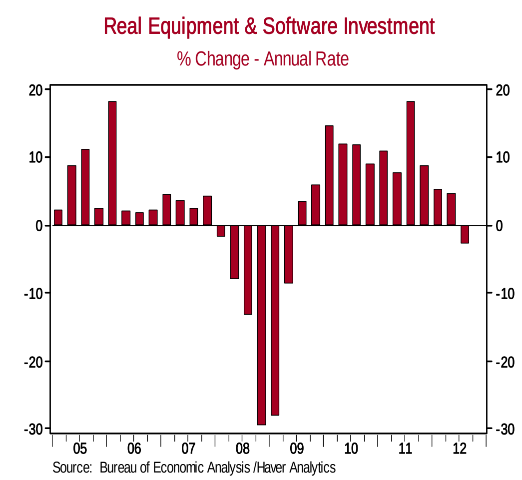
- Real GDP was revised to a 2.7% annual growth rate in Q3 from a prior estimate of 2.0%. The consensus had expected a revision to a 2.8% annual rate.
- Inventories and net exports were revised up, while personal consumption and business investment were revised lower.
- The largest positive contributions to the real GDP growth rate in Q3 were personal consumption, inventories and government. The weakest component was business investment.
- The GDP price index was revised lower at a 2.7% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 5.5% annual rate from a prior estimate of 5.0%.

Implications: The most newsworthy part of today's GDP report is that corporate profits increased at a 14.8% annual rate in Q3 and are up 8.7% versus a year ago. Profits are now back at an all-time record high. Real GDP growth in the third quarter was revised up substantially, coming in at a 2.7% annual rate versus an original estimate of 2.0%. Despite a better growth number, the lion's share of the increase was due to higher inventories. So, although the overall number came in much better than the prior estimate, the composition of growth was less promising for the economy going forward. In fact, real personal consumption growth is now estimated at 1.4%, down from the 2.0% originally thought. If we exclude inventories, final sales grew at a 1.9% annual rate. What we have here is another plow horse GDP report. Nominal GDP (real growth plus inflation) is up 4.2% from a year ago and grew at a 5.5% annual rate in Q3, the fastest growth since mid-2007. These figures suggest further quantitative easing is not helpful. Even zero percent interest rates are inappropriate when nominal GDP growth is this high. Despite that, it looks like the Fed may ramp up the expansion in the balance sheet in 2013. In other news this morning, new claims for jobless benefits declined 23,000 last week to 393,000 as disruptions from super storm Sandy are starting to recede. Continuing claims for regular state benefits declined 70,000 to 3.29 million. Also this morning, pending home sales, which are contracts on existing homes, rose 5.2% in October. Look for higher existing home sales in the coming month.





3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-12	Q2-12	Q1-12	Q4-11	4-Quarter Change
Real GDP	**2.7%**	1.3%	2.0%	4.1%	2.5%
GDP Price Index	**2.7%**	1.6%	2.0%	0.4%	1.7%
Nominal GDP	**5.5%**	2.8%	4.2%	4.2%	4.2%
PCE	**1.4%**	1.5%	2.4%	2.0%	1.8%
Business Investment	**-2.2%**	3.6%	7.5%	9.5%	4.5%
Structures	**-1.0%**	0.6%	12.8%	11.5%	5.8%
Equipment and Software	**-2.7%**	4.8%	5.4%	8.8%	4.0%
Contributions to GDP Growth (p.pts.)	**Q3-12**	**Q2-12**	**Q1-12**	**Q4-11**	**4Q Avg.**
PCE	**1.0**	1.1	1.7	1.5	1.3
Business Investment	**-0.2**	0.4	0.7	0.9	0.5
Residential Investment	**0.3**	0.2	0.4	0.3	0.3
Inventories	**0.8**	-0.5	-0.4	2.5	0.6
Government	**0.7**	-0.1	-0.6	-0.4	-0.1
Net Exports	**0.1**	0.2	0.1	-0.6	-0.1

Source: Commerce Department