

3RD QUARTER GDP (FINAL)

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- Real GDP growth for the third quarter was downwardly revised to a 2.0% annualized growth rate from a previously estimated 2.2%. This downward revision can be attributed to two factors: inventory accumulation and state and local government spending, both of which were weaker in Q3 than previously estimated.
- The GDP price index was revised up slightly to 1.9% from 1.8%. With real GDP growth revised down 0.2 percentage points and the price index revised up 0.1 percentage points, nominal GDP growth was 0.1 percentage points slower than previously estimated: 3.9% versus 4%.
- Overall, there was very little change to the growth rates of components of GDP, both real and nominal. However, the growth rate of nominal personal income was revised up to 5.9% from 5.5% and the growth rate of wages and salaries was revised up to 5.0% from 4.5%.

Implications: The small revisions to GDP in today's release will have very little market impact. Neither of the key factors behind the downward revision – inventory accumulation and state and local government spending – signal any shift in underlying economic trends. However, digging deeper into the report, there were solid upward revisions to personal income and wages and salaries, which suggest that consumer spending and the economy will continue to grow at a robust rate in 2007. Our outlook remains that the US economy will show greater vigor in the final quarter of this year and throughout 2007 than most economists expect. We expect real GDP growth at a 3.0% rate in Q4 and 3.3% in 2007 (Q4/Q4). Although housing will exert roughly the same drag on GDP growth in Q4 as it did in Q3 (reducing real growth by 1.2 percentage points), personal consumption and net exports will be stronger, boosting the overall growth rate.

3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-06	Q2-06	Q1-06	Q4-05	4 Quarter Change
Real GDP	2.0%	2.6%	5.6%	1.8%	3.0%
GDP Price Index	1.9%	3.3%	3.3%	3.3%	2.9%
Nominal GDP	3.9%	5.9%	9.0%	5.1%	6.0%
PCE	2.8%	2.6%	4.8%	0.8%	2.7%
Durables	6.4%	-0.1%	19.8%	-12.3%	2.8%
Nondurables	1.5%	1.4%	5.9%	3.9%	3.2%
Services	2.8%	3.7%	1.6%	2.0%	2.5%
Business Investment	10.0%	4.4%	13.7%	5.2%	8.3%
Structures	15.7%	20.3%	8.8%	12.0%	14.1%
Equipment and Software	7.7%	-1.4%	15.6%	2.8%	6.0%
Contributions to GDP Growth (p.pts.)	Q3-06	Q2-06	Q1-06	Q4-05	4Q Avg.
PCE	2.0	1.8	3.4	0.5	1.9
Business Investment	1.0	0.5	1.4	0.5	0.8
Residential Investment	-1.2	-0.7	0.0	-0.1	-0.5
Inventories	0.1	0.4	0.0	2.1	0.6
Government	0.3	0.2	0.9	-0.2	0.3
Net Exports	-0.2	0.4	0.0	-1.1	-0.2

Source: Commerce Department

