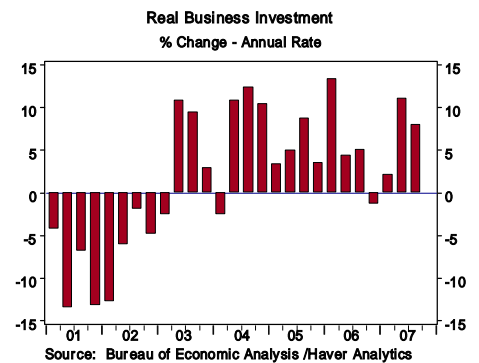
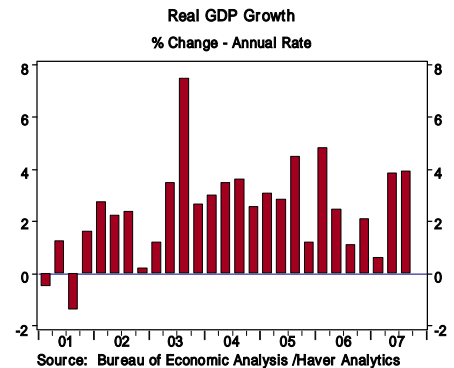


3RD QUARTER GDP (ADVANCE)

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- The first estimate for Q3 GDP growth is 3.9% at an annual rate, noticeably higher than the consensus expected 3.1% rate and the third strongest quarter in the last four years.
- The largest positive contributions to real GDP growth were made by personal consumption, net exports, business investment, and national defense. Net exports added 0.9 points to real GDP growth following a contribution of 1.3 points in Q2. The contribution by business investment included equal parts construction and equipment/software.
- Housing was the only major drag on real GDP growth, lopping off 1.1 percentage points from real GDP growth, roughly equaling the average drag of 1.0 percentage point in the previous year. Excluding housing, real GDP grew at a 5.1% annual rate in Q3 and is up 3.6% versus a year ago.
- The GDP price index rose at a 0.8% annual rate in Q3, the smallest quarterly increase since 1963. GDP prices are up 2.3% versus a year ago. Nominal GDP – real GDP plus inflation – grew at a 4.7% rate in Q3 and is up 5.0% versus a year ago.



Implications: The housing-related slowdown in economic growth is behind us, not in front of us. Real GDP grew only 1.5% in the year ending in the first quarter of 2007. Since then, we have experienced a 3.8% growth rate in Q2 and a 3.9% growth rate in Q3. It took a year, but labor and capital that was previously absorbed by housing and then released during the onset of the housing correction have been deployed in other sectors. We believe healthy growth will continue and expect real GDP to grow at a 3% annual rate in Q4 and a 3.5% rate in 2008. Although GDP prices rose at only a 0.8% rate in Q3, they are up 2.3% versus a year ago and we expect the year-to-year comparisons to worsen in the quarters ahead. The economy is telling the Federal Reserve that it does not need to cut rates.

3rd Quarter GDP	Q3-07	Q2-07	Q1-07	Q4-06	4 Quarter Change
<i>Seasonally Adjusted Annual Rates</i>					
Real GDP	3.9%	3.8%	0.6%	2.1%	2.6%
GDP Price Index	0.8%	2.6%	4.2%	1.7%	2.3%
Nominal GDP	4.7%	6.6%	4.9%	3.8%	5.0%
PCE	3.0%	1.4%	3.7%	3.9%	3.0%
Business Investment	7.9%	11.0%	2.1%	-1.4%	4.8%
Structures	12.4%	26.2%	6.3%	7.5%	12.8%
Equipment and Software	5.9%	4.7%	0.3%	-4.9%	1.4%
Contributions to GDP Growth (p.pts.)	Q3-07	Q2-07	Q1-07	Q4-06	4Q Avg.
PCE	2.1	1.0	2.6	2.7	2.1
Business Investment	0.8	1.1	0.2	-0.2	0.5
Residential Investment	-1.1	-0.6	-0.9	-1.0	-0.9
Inventories	0.4	0.2	-0.7	-1.3	-0.3
Government	0.7	0.8	-0.1	0.7	0.5
Net Exports	0.9	1.3	-0.5	1.3	0.7