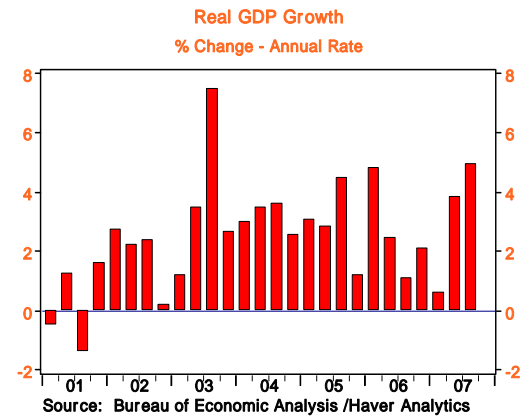


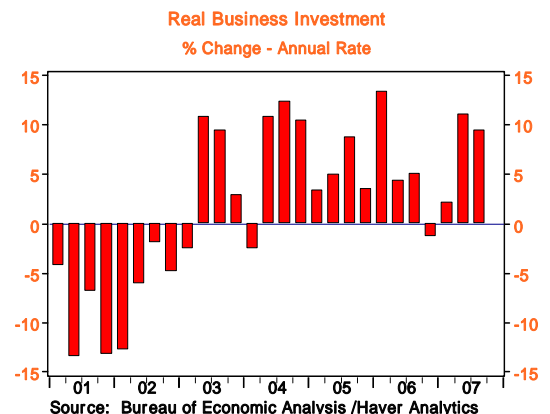
## 3<sup>RD</sup> QUARTER GDP (FINAL)

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- The final revision to Q3 real GDP showed no change from the 4.9% growth rate estimated last month, matching consensus expectations.
- All of the revisions to the components of GDP were small, with slightly more consumption offsetting slightly less inventory accumulation and home building. The housing sector was still the largest drag on real GDP growth in Q3. Excluding housing, real GDP grew at a 6.2% annual rate.
- The GDP price index was revised to a 1.0% annual growth rate from the 0.9% reported last month. Nominal GDP growth – real GDP plus inflation – grew at a 6.0% rate in Q3.



**Implications:** Today's data confirm the incredible economic strength of the third quarter. Outside the housing sector, the economy has been stronger in the past year than at any time since 2000. One bright spot for the future was that inventory accumulation added slightly less to Q3 growth than previously estimated, suggesting less of a reason for production cuts in Q4 and early 2008. Nominal GDP growth – real GDP plus inflation – climbed at a 6% annual rate in Q3 and is up 5.3% versus a year ago. A federal funds rate of 4.25% is too low to reduce inflation in an economy where nominal GDP growth is at those levels. In other news this morning, new claims for unemployment insurance increased 12,000 to 346,000 last week. Continuing claims also increased 12,000 to 2.646 million.



<b>3rd Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q3-07</b>	<b>Q2-07</b>	<b>Q1-07</b>	<b>Q4-06</b>	<b>4 Quarter Change</b>
<b>Real GDP</b>	4.9%	3.8%	0.6%	2.1%	2.8%
<b>GDP Price Index</b>	1.0%	2.6%	4.2%	1.7%	2.4%
<b>Nominal GDP</b>	6.0%	6.6%	4.9%	3.8%	5.3%
<b>PCE</b>	2.8%	1.4%	3.7%	3.9%	3.0%
<b>Business Investment</b>	9.4%	11.0%	2.1%	-1.4%	5.1%
<b>Structures</b>	16.4%	26.2%	6.3%	7.5%	13.8%
<b>Equipment and Software</b>	6.2%	4.7%	0.3%	-4.9%	1.5%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q3-07</b>	<b>Q2-07</b>	<b>Q1-07</b>	<b>Q4-06</b>	<b>4Q Avg.</b>
<b>PCE</b>	2.0	1.0	2.6	2.7	2.1
<b>Business Investment</b>	1.0	1.1	0.2	-0.2	0.5
<b>Residential Investment</b>	-1.1	-0.6	-0.9	-1.0	-0.9
<b>Inventories</b>	0.9	0.2	-0.7	-1.3	-0.2
<b>Government</b>	0.7	0.8	-0.1	0.7	0.5
<b>Net Exports</b>	1.4	1.3	-0.5	1.3	0.9