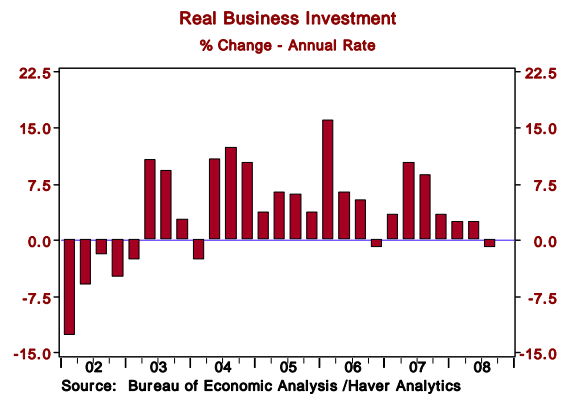
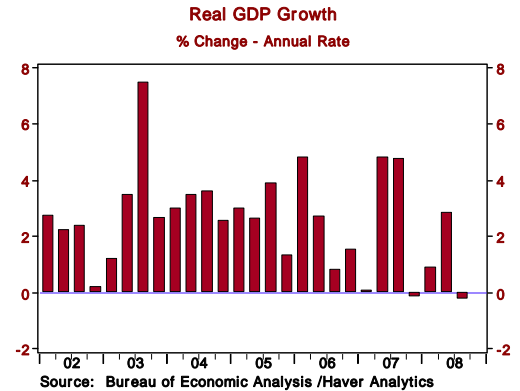


# 3<sup>RD</sup> QUARTER GDP (ADVANCE)

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- The first estimate for Q3 real GDP growth is -0.3% at an annual rate, slightly better than the consensus expected -0.5%. Real GDP is up 0.8% versus last year.
- The strongest components of real GDP were net exports and government, which added 1.1 points and 1.2 points, respectively, to the real GDP growth rate.
- The largest drag on real GDP was personal consumption, which fell at a 3.1% annual rate – the steepest decline since 1980 – subtracting 2.3 points from the real GDP growth rate.
- The GDP price index rose at a 4.2% annual rate in Q3 and is up 2.7% versus last year. Nominal GDP – real GDP plus inflation – grew at a 3.8% rate in Q3 and is up 3.4% versus a year ago.

**Implications:** Real GDP was essentially flat in Q3, shrinking at a 0.3% annual rate. However, the dramatic slowdown in the velocity of money, which is the primary reason for the recession, hit the economy in September, suggesting both that we were growing positively through August and that we will experience a much deeper negative number for Q4. The fall in consumption in Q3 was the steepest since 1980 but we do not expect quite as much of a decline in Q4. Instead, the weakest component of real GDP in Q4 is likely to be inventories, which will help set the stage for the economic rebound that follows, as the arteries of credit become unclogged. On the inflation front, GDP prices grew at a 4.2% annual rate in Q3, the largest increase since 1991. For the second quarter, some commentators saw that GDP prices climbed at an unusually low 1.1% annual rate and used this to claim the 2.8% real GDP growth rate in Q2 was artificially high. If these analysts used the same argument now they would have to suggest real GDP is being held artificially low. In other news this morning, initial claims for unemployment insurance were unchanged at 479,000 last week, while continuing claims fell 20,000 to 3.715 million.



<b>3rd Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q3-08</b>	<b>Q2-08</b>	<b>Q1-08</b>	<b>Q4-07</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>-0.3%</b>	2.8%	0.9%	-0.2%	0.8%
<b>GDP Price Index</b>	<b>4.2%</b>	1.1%	2.6%	2.8%	2.7%
<b>Nominal GDP</b>	<b>3.8%</b>	4.1%	3.5%	2.3%	3.4%
<b>PCE</b>	<b>-3.1%</b>	1.2%	0.9%	1.0%	0.0%
<b>Business Investment</b>	<b>-1.0%</b>	2.5%	2.4%	3.4%	1.8%
<b>Structures</b>	<b>7.9%</b>	18.4%	8.7%	8.6%	10.8%
<b>Equipment and Software</b>	<b>-5.5%</b>	-5.0%	-0.5%	1.0%	-2.6%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q3-08</b>	<b>Q2-08</b>	<b>Q1-08</b>	<b>Q4-07</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>-2.3</b>	0.9	0.6	0.7	0.0
<b>Business Investment</b>	<b>-0.1</b>	0.3	0.3	0.4	0.2
<b>Residential Investment</b>	<b>-0.7</b>	-0.5	-1.1	-1.3	-0.9
<b>Inventories</b>	<b>0.6</b>	-1.5	0.0	-1.0	-0.5
<b>Government</b>	<b>1.2</b>	0.8	0.4	0.2	0.6
<b>Net Exports</b>	<b>1.1</b>	2.9	0.8	0.9	1.4

Source: Commerce Department