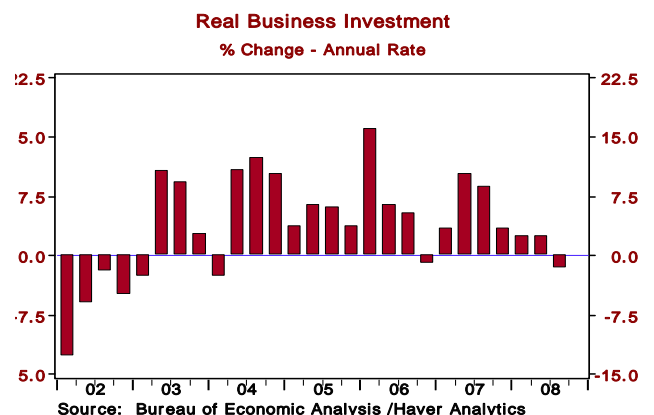
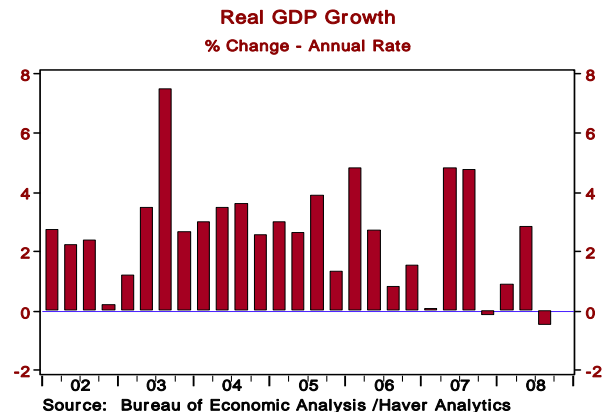


# 3<sup>RD</sup> QUARTER GDP (FINAL)

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- Real GDP contracted at an unrevised -0.5% annual rate in Q3, matching consensus expectations. Real GDP is up 0.7% versus a year ago.
- The largest drag on real GDP in Q3 was personal consumption, which fell at a 3.8% annual rate. The largest positive contributors to real GDP growth in Q3 were government spending, international trade, and inventories.
- Although overall real GDP was unrevised, government spending and home building were revised slightly upward, while personal consumption and inventories were revised slightly downward. Business investment was also revised slightly downward, but with more investment in structures and less investment in equipment and software.
- The GDP price index was revised to a 3.9% annual rate in Q3 versus a previous estimate of 4.2%. Nominal GDP growth – real GDP plus inflation – was revised down to a 3.4% growth rate in Q3 versus a prior estimate of 3.6%.



**Implications:** There were no real surprises in today’s revision to Q3 GDP. The report showed that real GDP contracted at an unrevised -0.5% annual rate. Even though the NBER has said the recession started in December 2007, so far, real GDP (excluding home building) has not yet had a negative quarter of growth – the third quarter was flat, while the four quarter change is still a positive 1.6%. This will change dramatically in the fourth quarter, when real GDP will contract at about a 6% annual rate. We continue to believe the recession did not actually take hold outside of housing until the summer of 2008. A bright spot in the report is that, largely due to the energy sector, domestic non-financial profits increased at a 29.4% rate in Q3, the first increase in more than a year.

<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>-0.5%</b>	2.8%	0.9%	-0.2%	0.7%
<b>GDP Price Index</b>	<b>3.9%</b>	1.1%	2.6%	2.8%	2.6%
<b>Nominal GDP</b>	<b>3.4%</b>	4.1%	3.5%	2.3%	3.3%
<b>PCE</b>	<b>-3.8%</b>	1.2%	0.9%	1.0%	-0.2%
<b>Business Investment</b>	<b>-1.7%</b>	2.5%	2.4%	3.4%	1.6%
<b>Structures</b>	<b>9.6%</b>	18.4%	8.7%	8.6%	11.2%
<b>Equipment and Software</b>	<b>-7.5%</b>	-5.0%	-0.5%	1.0%	-3.1%
<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>-2.8</b>	0.9	0.6	0.7	-0.2
<b>Business Investment</b>	<b>-0.2</b>	0.3	0.3	0.4	0.2
<b>Residential Investment</b>	<b>-0.6</b>	-0.5	-1.1	-1.3	-0.9
<b>Inventories</b>	<b>0.8</b>	-1.5	0.0	-1.0	-0.4
<b>Government</b>	<b>1.1</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