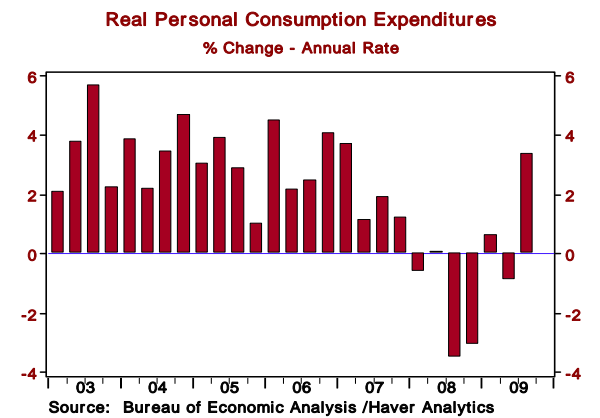
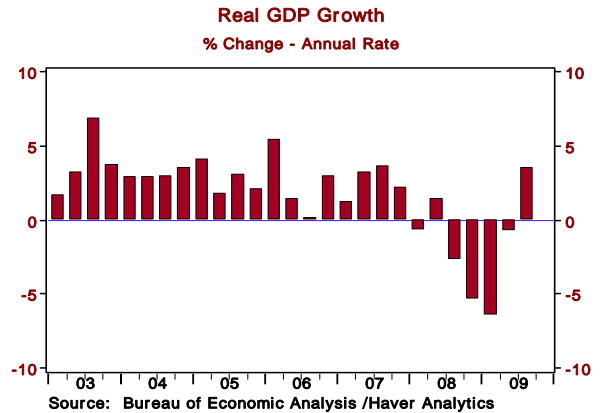


# 3<sup>RD</sup> QUARTER GDP (ADVANCE)

Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA

- The first estimate for Q3 real GDP growth is 3.5% at an annual rate versus a consensus expected 3.2%. The increase in real GDP is the first in more than a year.
- The largest positive contributions to the real GDP growth rate, in order, were personal consumption, inventories, and home building.
- The weakest components of real GDP were international trade and business investment in structures (such as offices and retail space).
- The GDP price index increased at a 0.8% annual rate in Q3. Nominal GDP – real GDP plus inflation – rose at a 4.3% rate in Q3, the first increase in a year.

**Implications:** Real GDP grew at a solid 3.5% annual rate in Q3, slightly better than the consensus expected. In particular, home building increased at a 23.3% annual rate, the fastest increase since the 1980s. Home building bottomed in the second quarter and we anticipate a significant upward trend over the next few years. It will take a few years for home building to return to normal, so even during the recovery, the housing market can work off excess inventories. If anything, we believe this first estimate for Q3 will be revised upward toward 4% in the next two months. When the government makes its first estimate for GDP it has to make assumptions about trade, inventories, and construction late in the quarter. This time around, it assumed a large increase in the trade deficit in September. We think an increase that size is unlikely given the end of cash-for-clunkers in August, which should have put downward pressure on imports in September. Although much of the increase in Q3 real GDP was related to autos, this does not mean it was caused by cash-for-clunkers. The auto sector's contribution to real GDP depends on *production* not *consumption*. Auto companies scheduled Q3 production increases early this year, before the clunkers law was passed, because production had previously dropped to unsustainable lows. The clunkers law boosted auto sales, but reduced inventories. Now, with auto inventories relatively lean and sales likely to increase in the year ahead, auto production will continue to make gains. In other news this morning, new claims for unemployment insurance declined 1,000 last week to 530,000. The 4-week moving average fell to a new recovery low of 526,000. Continuing claims for regular state benefits fell 148,000 to 5.80 million.



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-09	Q2-09	Q1-09	Q4-08	4-Quarter Change
<b>Real GDP</b>	<b>3.5%</b>	-0.7%	-6.4%	-5.4%	-2.3%
<b>GDP Price Index</b>	<b>0.8%</b>	0.0%	1.9%	0.1%	0.7%
<b>Nominal GDP</b>	<b>4.3%</b>	-0.8%	-4.6%	-5.4%	-1.7%
<b>PCE</b>	<b>3.4%</b>	-0.9%	0.6%	-3.1%	0.0%
<b>Business Investment</b>	<b>-2.5%</b>	-9.6%	-39.2%	-19.4%	-18.9%
<b>Structures</b>	<b>-9.0%</b>	-17.3%	-43.6%	-7.2%	-20.8%
<b>Equipment and Software</b>	<b>1.1%</b>	-4.9%	-36.4%	-25.9%	-17.9%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q3-09</b>	<b>Q2-09</b>	<b>Q1-09</b>	<b>Q4-08</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>2.4</b>	-0.6	0.4	-2.2	0.0
<b>Business Investment</b>	<b>-0.2</b>	-1.0	-5.3	-2.5	-2.3
<b>Residential Investment</b>	<b>0.5</b>	-0.7	-1.3	-0.8	-0.6
<b>Inventories</b>	<b>0.9</b>	-1.4	-2.4	-0.6	-0.9
<b>Government</b>	<b>0.5</b>	1.3	-0.5	0.2	0.4
<b>Net Exports</b>	<b>-0.5</b>	1.7	2.6	0.5	1.1

Source: Commerce Department

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