

3RD QUARTER GDP (PRELIM)

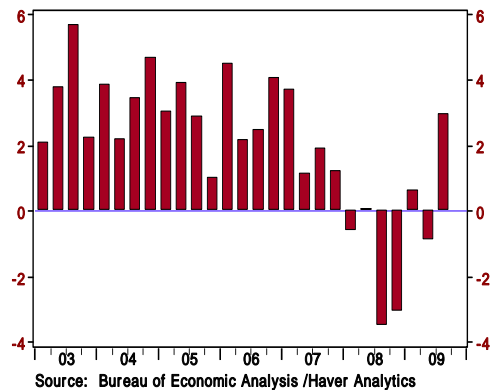
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- Real GDP was revised down to a 2.8% annual growth rate in Q3, from an original estimate of 3.5%, matching consensus expectations.
- The overall downward revision was due to small revisions to net exports, personal consumption, and commercial construction. Government spending was revised up slightly.
- The largest positive contributions to the real GDP growth rate in Q3 were personal consumption, inventories, and government. The weakest components of real GDP were international trade and commercial construction.
- The GDP price index was revised to a 0.5% annual rate of change from a prior estimate of 0.8%. Nominal GDP growth – real GDP plus inflation – was revised to a 3.3% annual rate in Q3 versus an original estimate of 4.3%.



Implications: Real GDP growth was revised down for the third quarter to a still solid 2.8% annual rate of growth, in-line with market expectations. This remains consistent with our view that the US is experiencing a V-shaped recovery. In the first quarter of the year, the economy shrank at a 6.4% annual rate, followed by -0.7% in Q2, and now +2.8% in Q3. For Q4, we expect the growth rate to move up to 4.5%. The most important news in today's GDP report was the first look at corporate profits in Q3 and they were very strong, growing at a 50% annual rate, the third consecutive quarterly increase. Domestic financial companies spurred most of the gain in profits, but profits also grew for domestic non-financial companies and operations outside the US. In other news this morning, the housing market is showing moderate improvement. The Case-Shiller index, a measure of prices in the 20 largest metropolitan areas, climbed 0.3% in September, the fourth straight monthly gain. In the past three months, home prices are up in 16 of the 20 metro areas. Meanwhile, the Federal Housing Finance Agency, which tracks homes financed by conforming mortgages, showed no change in prices in September. Prices for these homes are essentially unchanged since last November.

Real Personal Consumption Expenditures
% Change - Annual Rate



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-09	Q2-09	Q1-09	Q4-08	4-Quarter Change
Real GDP	2.8%	-0.7%	-6.4%	-5.4%	-2.5%
GDP Price Index	0.5%	0.0%	1.9%	0.1%	0.6%
Nominal GDP	3.3%	-0.8%	-4.6%	-5.4%	-1.9%
PCE	2.9%	-0.9%	0.6%	-3.1%	-0.1%
Business Investment	-4.1%	-9.6%	-39.2%	-19.4%	-19.3%
Structures	-15.2%	-17.3%	-43.6%	-7.2%	-22.1%
Equipment and Software	2.3%	-4.9%	-36.4%	-25.9%	-17.7%
Contributions to GDP Growth (p.pts.)	Q3-09	Q2-09	Q1-09	Q4-08	4Q Avg.
PCE	2.1	-0.6	0.4	-2.2	-0.1
Business Investment	-0.4	-1.0	-5.3	-2.5	-2.3
Residential Investment	0.5	-0.7	-1.3	-0.8	-0.6
Inventories	0.9	-1.4	-2.4	-0.6	-0.9
Government	0.6	1.3	-0.5	0.2	0.4
Net Exports	-0.8	1.7	2.6	0.5	1.0

Source: Commerce Department

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