

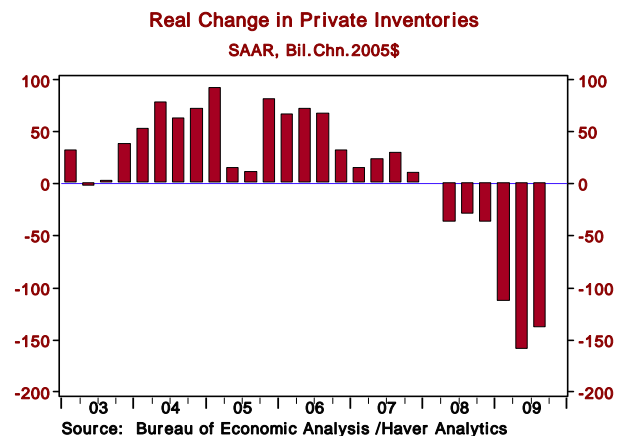
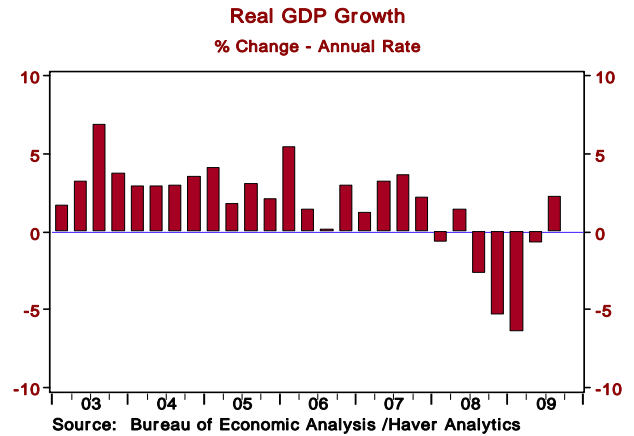
3RD QUARTER GDP (FINAL)

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

- Real GDP growth in Q3 was revised down to a +2.2% annual rate from a previous estimate of +2.8%. The consensus expected +2.8%.
- The largest downward revisions versus last month's estimate of Q3 real GDP growth were for inventories and commercial construction. Personal consumption of services as well as government spending were also revised down 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 0.4% annual rate of change from a prior estimate of 0.5%. Nominal GDP growth – real GDP plus inflation – was revised to a 2.6% annual rate in Q3 versus a prior estimate of 3.3%.

Implications: The economy grew a little more slowly in the third quarter, compared to previous estimates. However, much of the downward revision was due to lower figures on inventories, which should boost estimates for growth in the fourth quarter. It's important to recognize how far the US economy has come since early this year. Back in January, the consensus forecast was that the economy would grow at only a 1.2% rate in Q3 and a 2% rate in Q4. Also, the consensus odds were 45% on the recession lasting through year-end. Now the recession is clearly in the rear-view mirror (we think growth began in June) and real GDP growth is likely to be up at around a 5% rate in Q4. Next year, we expect roughly 4.5% real GDP growth.

Although output was revised down in Q3, incomes were revised upward slightly for both workers and companies. In particular, profits in the non-financial sector, which helps drive business investment, were revised up 2.2%.



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-09	Q2-09	Q1-09	Q4-08	4-Quarter Change
Real GDP	2.2%	-0.7%	-6.4%	-5.4%	-2.6%
GDP Price Index	0.4%	0.0%	1.9%	0.1%	0.6%
Nominal GDP	2.6%	-0.8%	-4.6%	-5.4%	-2.1%
PCE	2.8%	-0.9%	0.6%	-3.1%	-0.2%
Business Investment	-5.9%	-9.6%	-39.2%	-19.4%	-19.6%
Structures	-18.4%	-17.3%	-43.6%	-7.2%	-22.9%
Equipment and Software	1.5%	-4.9%	-36.4%	-25.9%	-17.9%
Contributions to GDP Growth (p.pts.)	Q3-09	Q2-09	Q1-09	Q4-08	4Q Avg.
PCE	2.0	-0.6	0.4	-2.2	-0.1
Business Investment	-0.6	-1.0	-5.3	-2.5	-2.3
Residential Investment	0.4	-0.7	-1.3	-0.8	-0.6
Inventories	0.7	-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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