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3rd Quarter GDP (Preliminary)

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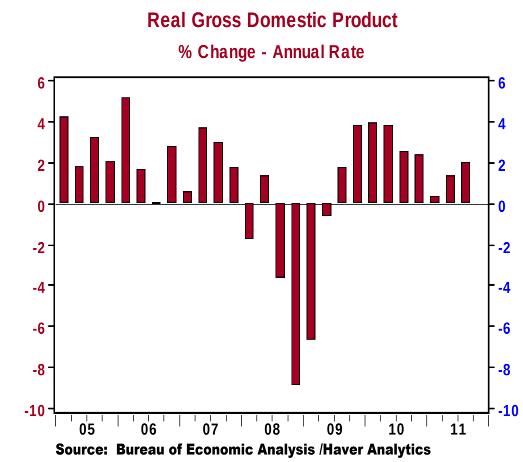
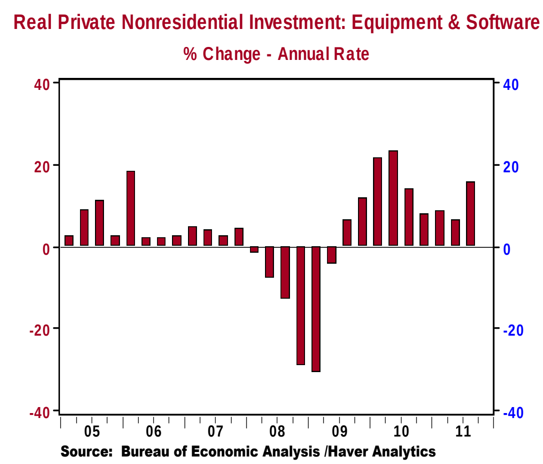
- Real GDP was revised to a 2.0% annual growth rate in Q3 from a prior estimate of 2.5%. The consensus had expected GDP growth to remain unchanged at 2.5%.
- Inventories were revised down the most, while net exports were revised up.
- The largest positive contributions to the real GDP growth rate in Q3 were personal consumption and business investment in equipment/software. By far the weakest component was inventories.
- The GDP price index was unchanged at a 2.5% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised down to a 4.6% annual rate from a prior estimate of 5.0%.





Implications: Real GDP growth in the third quarter was revised down, coming in at a 2% annual rate versus a consensus expected 2.5% rate. Most major categories were only revised slightly, for example, revisions to personal consumption subtracted a tenth from GDP while trade added two tenths, but it was inventories that subtracted 0.5% from the original GDP estimate (now -1.6 points versus -1.1 originally). The composition of growth was more promising for the economy going forward. Inventories are at rock bottom levels. Any boost will add to GDP in the quarters ahead. If we exclude inventories, final sales grew at a robust 3.6% annual rate. Net exports were revised up in Q3. Business investment grew at a 14.8% rate in Q3, the fastest pace so far this year. In other words, consumer and business spending is growing much faster than those who watch consumer and business confidence data think it will. Nominal GDP (real growth plus inflation) grew at a 4.6% annual rate in Q3 and is up at a 4.4% rate in the past two years. The Federal Reserve faces an uphill battle trying to justify another round of quantitative easing based on the growth rate of nominal GDP. Even zero percent interest rates are inappropriate when nominal GDP growth is this high. The most newsworthy part of today's report is that corporate profits increased at an 8.5% annual rate in Q3 and are up 7.9% versus a year ago. Most of the increase was due to domestic firms, not the rest of the world. Profits are at an all-time record high and are the highest share of GDP since 1950. The worst part of today's report was an unexpected downward revision in wages and salaries in Q2 and Q3. Slow growth in personal income probably reflects weak economic growth in the first half of the year, but bears watching if it persists into the fourth quarter. In other news this morning, data on chain store sales show no let up by consumers. Sales are up 2.8% from a year ago according to the International Council of Shopping Centers and 3.7% according to Redbook Research. The Richmond Fed index, a measure of manufacturing in the mid-Atlantic increased to 0 in November from -6 in October.

3rd Quarter GDP *Seasonally Adjusted Annual Rates*	Q3-11	Q2-11	Q1-11	Q4-10	4-Quarter Change
Real GDP	**2.0%**	1.3%	0.4%	2.3%	1.5%
GDP Price Index	**2.5%**	2.5%	2.5%	1.9%	2.4%
Nominal GDP	**4.6%**	4.0%	3.1%	4.2%	3.9%
PCE	**2.3%**	0.7%	2.1%	3.6%	2.2%
Business Investment	**14.8%**	10.3%	2.1%	8.7%	8.9%
Structures	**12.6%**	22.6%	-14.4%	10.6%	6.9%
Equipment and Software	**15.6%**	6.3%	8.7%	8.0%	9.6%
Contributions to GDP Growth (p.pts.)	**Q3-11**	**Q2-11**	**Q1-11**	**Q4-10**	**4Q Avg.**
PCE	**1.6**	0.5	1.5	2.5	1.5
Business Investment	**1.4**	1.0	0.2	0.8	0.9
Residential Investment	**0.0**	0.1	-0.1	0.1	0.0
Inventories	**-1.6**	-0.3	0.3	-1.8	-0.8
Government	**0.0**	-0.2	-1.2	-0.6	-0.5
Net Exports	**0.5**	0.2	-0.3	1.4	0.4

Source: Commerce Department