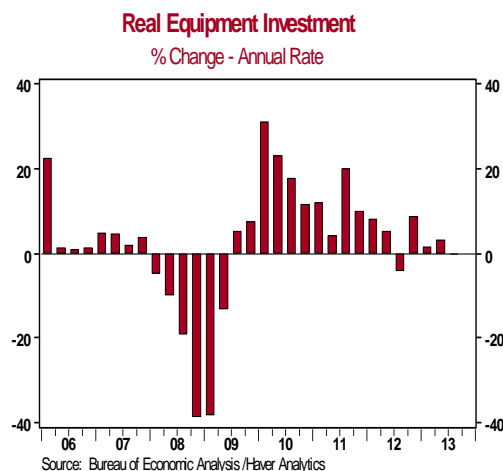


3rd Quarter GDP (Preliminary)

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- Real GDP was revised to a 3.6% annual growth rate in Q3 from a prior estimate of 2.8%. The consensus had expected a revision to a 3.0% annual rate.
- On net, inventories accounted for all the upward revision in real GDP. Net exports were revised down.
- The largest positive contributions to the real GDP growth rate in Q3 were inventories and personal consumption. No component was a drag on growth, although business investment in equipment was unchanged.
- The GDP price index was revised higher to a 2.0% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 5.6% annual rate from a prior estimate of 4.8%.

Implications: Forget the good headline real GDP number for a moment. The best news in today's report was that corporate profits increased at a 7.5% annual rate in Q3 and are at a new all-time record high. Ultimately, high profits are why we still think equities are substantially undervalued and today's data supports further gains in equities in the year ahead. Today's attention-grabbing headline was an unexpectedly large upward revision to real GDP growth, to a 3.6% annual rate in Q3 versus an original report last month of 2.8%. However, all of the upward revision, on net, was due to inventories. As a result, don't be surprised if real GDP grows at a rate of about 0.5% in Q4 even though personal spending accelerates. The bottom line is that the underlying pace of growth remains about 2%, but should pick up next year. Nominal GDP (real growth plus inflation) was revised up to a 5.6% annual rate in Q3 from a prior estimate of 4.8%. Nominal GDP is up 3.3% from a year ago and up at a 4% annual rate in the past two years. These figures suggest further quantitative easing is not helpful. Even zero percent interest rates are inappropriate when nominal GDP is growing at this pace. In other news this morning, new claims for jobless benefits declined 23,000 last week to 298,000. Continuing claims for regular state benefits declined 21,000 to 2.74 million. Claims are often volatile around Thanksgiving, so expect some rebound in claims next week. Regardless, plugging these figures into our models generates final forecasts for November of a 200,000 gain in nonfarm payrolls and a 197,000 gain in private payrolls. We also expect the jobless rate to slip to 7.2% from last month's report of 7.3%.



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-13	Q2-13	Q1-13	Q4-12	4-Quarter Change
Real GDP	3.6%	2.5%	1.1%	0.1%	1.8%
GDP Price Index	2.0%	0.6%	1.3%	1.1%	1.3%
Nominal GDP	5.6%	3.1%	2.8%	1.6%	3.3%
PCE	1.4%	1.8%	2.3%	1.7%	1.8%
Business Investment	3.5%	4.7%	-4.6%	9.8%	3.2%
Structures	13.7%	17.6%	-25.7%	17.5%	4.0%
Equipment	0.0%	3.2%	1.6%	8.9%	3.4%
Intellectual Property	1.7%	-1.5%	3.8%	5.7%	2.4%
Contributions to GDP Growth (p.pts.)	Q3-13	Q2-13	Q1-13	Q4-12	4Q Avg.
PCE	1.0	1.2	1.5	1.1	1.2
Business Investment	0.4	0.6	-0.6	1.1	0.4
Residential Investment	0.4	0.4	0.3	0.5	0.4
Inventories	1.7	0.4	0.9	-2.0	0.3
Government	0.1	-0.1	-0.8	-1.3	-0.5
Net Exports	0.1	-0.1	-0.3	0.7	0.1