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3rd Quarter GDP (Final)

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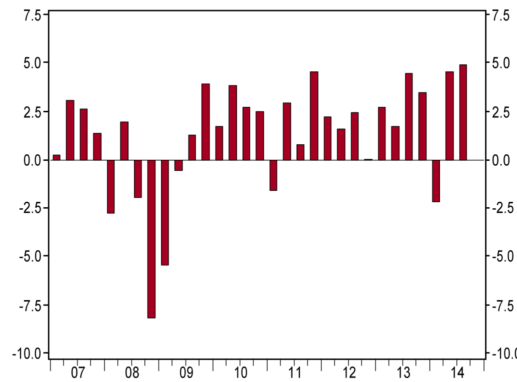
- Real GDP growth in Q3 was revised to a 5.0% annual rate from a prior estimate of 3.9%, beating the consensus expected 4.3%.
- The upward revision was mostly due to consumer spending on services, but almost all major categories of GDP were revised upward at least slightly, the one exception being net exports.
- The largest positive contributions to the real GDP growth rate in Q3 came from consumer spending, government purchases, and net exports. The weakest component of real GDP was inventories.
- The GDP price index was unchanged at a 1.4% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 6.4% annual rate versus a prior estimate of 5.3%. Nominal GDP is up 4.3% versus a year ago.

Real GDP Growth

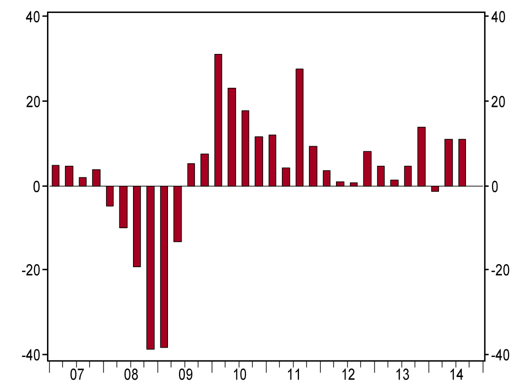
% Change - Annual Rate



Source: Bureau of Economic Analysis /Haver Analytics

Real Equipment Investment

% Change - Annual Rate



Source: Bureau of Economic Analysis /Haver Analytics

Implications: Almost everyone thought real GDP was going to be revised up for the third quarter…but no one predicted this much. Real GDP grew at a 5% annual rate in Q3, a major upward revision from the 3.9% rate reported a month ago, which was already up from the 3.5% reported at the end of October. More important, this is the fastest growth rate for any quarter since 2003. This is not a harbinger of a new economic boom but, along with this morning's data on personal income and spending, shows the Plow Horse economy is trending a little faster than the 2.2% annual growth rate from mid-2009 through mid-2014. Real GDP is up 2.7% in the past year and up at a 2.5% rate in the past two years. The other piece of good news is that economy-wide corporate profits were revised up to a 12.8% annual growth rate in Q3 and are at a new record high. In retrospect, it looks like the big drop in profits in Q1 was mostly weather-related and clears the way for a continuation of the bull market in equities. If anything, today's report solidifies our view that the Federal Reserve will be lifting rates by the middle of 2015. Nominal GDP (real growth plus inflation) rose at a 6.4% annual rate in Q3, is up 4.3% from a year ago and up at a 4% annual rate in the past two years. These figures show that short-term interest rates should be higher than essentially zero and it will be at least a couple of years before the Fed gets "tight" rather than "less loose." In other news this morning, the government reported consumer spending increased 0.6% in November (1% including revisions to prior months). "Real" (inflation-adjusted) spending rose 0.7% in November (1.2% including revisions to prior months). Meanwhile, personal income rose 0.4% in November, led by private-sector wages & salaries. As a result of all this data, it now looks like real GDP is growing at a roughly 3% rate in Q4, up from our prior estimate of 2.5%. After a negative quarter to start the year, things are looking much better.

3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-14	Q2-14	Q1-14	Q4-13	4-Quarter Change
Real GDP	5.0%	4.6%	-2.1%	3.5%	2.7%
GDP Price Index	1.4%	2.1%	1.3%	1.5%	1.6%
Nominal GDP	6.4%	6.8%	-0.8%	5.0%	4.3%
PCE	3.2%	2.5%	1.2%	3.7%	2.7%
Business Investment	8.9%	9.7%	1.6%	10.4%	7.6%
Structures	4.8%	12.6%	2.9%	12.8%	8.2%
Equipment	11.0%	11.2%	-1.0%	14.1%	8.7%
Intellectual Property	8.8%	5.5%	4.7%	3.6%	5.6%
Contributions to GDP Growth (p.pts.)	**Q3-14**	**Q2-14**	**Q1-14**	**Q4-13**	**4Q Avg.**
PCE	2.2	1.8	0.8	2.5	1.8
Business Investment	1.1	1.2	0.2	1.2	0.9
Residential Investment	0.1	0.3	-0.2	-0.3	0.0
Inventories	0.0	1.4	-1.2	-0.3	0.0
Government	0.8	0.3	-0.2	-0.7	0.1
Net Exports	0.8	-0.3	-1.7	1.1	0.0