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3RD QUARTER GDP (ADVANCE)

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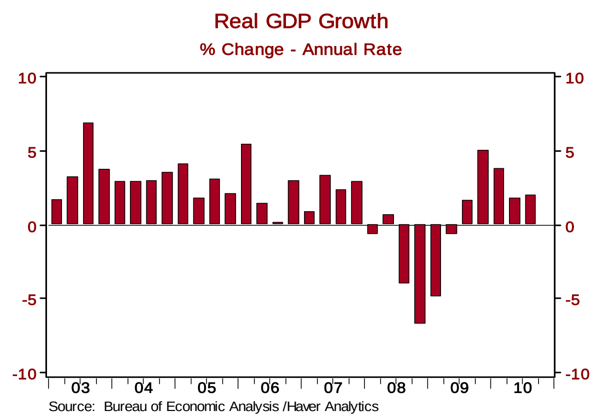
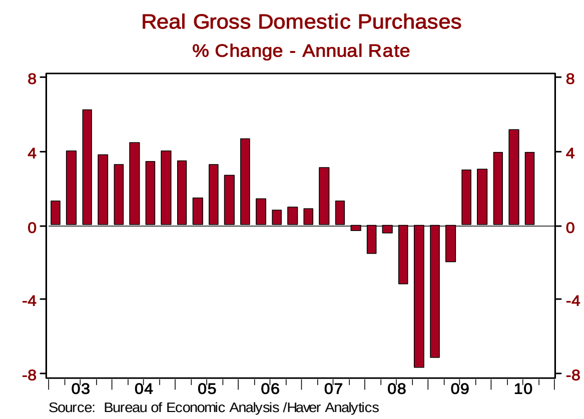
- The first estimate for Q3 real GDP growth is 2.0% at an annual rate, exactly as the consensus expected.
- The largest positive contributions to the real GDP growth rate, in order, were personal consumption, inventories, and business investment in equipment & software.
- As in Q2, the weakest component of real GDP, by far, was net exports.
- The GDP price index increased at a 2.3% annual rate in Q3. Nominal GDP – real GDP plus inflation – rose at a 4.2% rate in Q3 and is now up 4.4% versus a year ago.





Implications: If you didn't know this already, the double-dip is dead. Real consumer spending increased at a 2.6% annual rate in Q3, the fastest pace since late 2006. Business investment increased at a 9.8% rate. But, because imports surged at a 17.4% rate, real GDP was reported as growing just 2% in Q3. This is the second consecutive quarter where a surge in imports drove a wedge between the growth rate of US purchases and US production. Excluding the impact of the trade deficit reveals strong consumer and business spending. Domestic purchases increased 5.1% at an annual rate in Q2 and 3.9% in Q3. In other words, the Federal Reserve has already caused a revival in aggregate demand. But the Fed can't control where the production occurs. Increasingly, more and more of our purchases are being satisfied by foreign production. Given the depreciation of the US dollar, the trade deficit should be shrinking, not growing. We believe the recent expansion in the trade deficit may be due to concerns about the direction of government policy – including higher levels of regulation and taxes. In particular, the health care bill enacted earlier this year may be leading firms to shift production abroad. This is only a tentative theory, however. Other recent news is more bullish about activity in the US. The Chicago PMI, a measure of manufacturing in the Midwest, increased to 60.6 in October versus 60.4 in September. The consensus had expected the Chicago PMI to decline. The production index hit 69.8, the highest since early 2005. Meanwhile, new claims for unemployment insurance declined 21,000 last week to 434,000. Continuing claims for regular state benefits fell 122,000 to 4.36 million. These numbers suggest the potential for a strong private payrolls report out next Friday.

3rd Quarter GDP *Seasonally Adjusted Annual Rates*	**Q3-10**	**Q2-10**	**Q1-10**	**Q4-09**	**4-Quarter Change**
Real GDP	**2.0%**	1.7%	3.7%	5.0%	3.1%
GDP Price Index	**2.3%**	1.9%	1.0%	-0.2%	1.2%
Nominal GDP	**4.2%**	3.7%	4.8%	4.7%	4.4%
PCE	**2.6%**	2.2%	1.9%	0.9%	1.9%
Business Investment	**9.8%**	17.2%	7.8%	-1.4%	8.1%
Structures	**3.8%**	-0.5%	-17.8%	-29.2%	-11.9%
Equipment and Software	**12.0%**	24.8%	20.5%	14.6%	17.9%
Contributions to GDP Growth (p.pts.)	**Q3-10**	**Q2-10**	**Q1-10**	**Q4-09**	**4Q Avg.**
PCE	**1.8**	1.5	1.3	0.7	1.3
Business Investment	**0.9**	1.5	0.7	-0.1	0.8
Residential Investment	**-0.8**	0.6	-0.3	0.0	-0.1
Inventories	**1.4**	0.8	2.6	2.8	1.9
Government	**0.7**	0.8	-0.3	-0.3	0.2
Net Exports	**-2.0**	-3.5	-0.3	1.9	-1.0

Source: Commerce Department