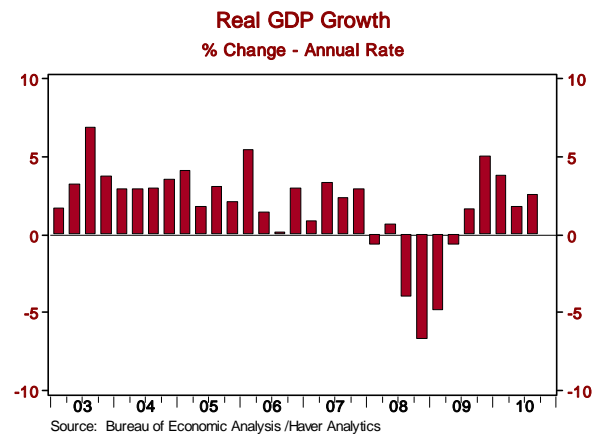


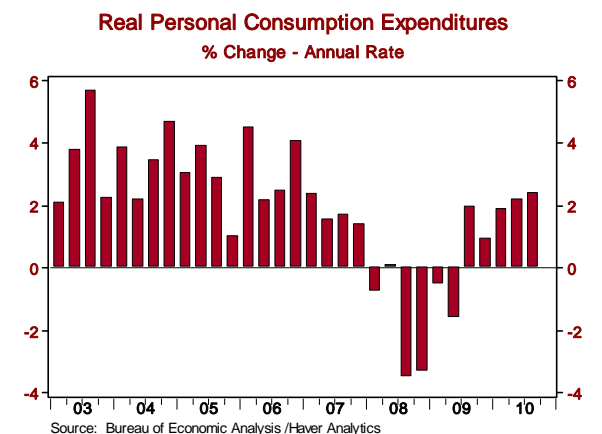
3RD QUARTER GDP (FINAL)

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- Real GDP growth in Q3 was revised up a tick to a 2.6% annual rate from a previous estimate of 2.5%. The consensus expected 2.8%.
- The largest upward revision *versus last month's estimate* of Q3 real GDP growth was for inventories. Consumer spending on services was revised downward.
- The largest positive contributions to the real GDP growth rate in Q3 were from consumer spending, inventories, and business investment in equipment & software. The weakest component of real GDP, by far, was net exports.
- The GDP price index was revised down to a 2.1% annualized rate of change from a prior estimate of 2.3%. Nominal GDP growth – real GDP plus inflation – was revised down to a 4.6% annual rate in Q3 versus a prior estimate of 4.8%.



Implications: Not much “news” in today’s report on GDP, showing the economy expanded at a 2.6% annual rate in the third quarter. This is an upward revision, but not quite as much as the consensus expected. The (mild) surprise was that consumer spending on services was revised downward, mainly due to health care and financial services/insurance. We wonder whether higher health care premiums are driving people away from that market. Regardless, these figures reflect activity ending in September, so are not a reason for concern. In the past two quarters, real GDP has grown at a tepid 2.1% annual rate. However, we believe this supposed “soft patch” is largely the result of difficulties the government is having with seasonally-adjusting imported oil prices. That’s why the government says trade has been such a huge drag on real GDP growth in Q2/Q3. Excluding trade from the GDP numbers gives us the growth rate of domestic purchases, which are up at a very strong 4.7% annual rate. The oil price issue will now reverse in the current quarter, which is part of the reason we think real GDP will register a 5% annualized growth rate in Q4, the other major reason being that the underlying growth rate of the economy is accelerating, too. Today’s report also confirms that corporate profits continue to grow, but not as quickly as originally estimated. Profits were revised down 1.1% for Q3 but still climbed at a 6.6% annual rate versus Q2 and are up 26.4% versus a year ago. This will help boost business investment in the year ahead.



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-10	Q2-10	Q1-10	Q4-09	4-Quarter Change
Real GDP	2.6%	1.7%	3.7%	5.0%	3.2%
GDP Price Index	2.1%	1.9%	1.0%	-0.2%	1.2%
Nominal GDP	4.6%	3.7%	4.8%	4.7%	4.5%
PCE	2.4%	2.2%	1.9%	0.9%	1.8%
Business Investment	10.0%	17.2%	7.8%	-1.4%	8.2%
Structures	-3.6%	-0.5%	-17.8%	-29.2%	-13.5%
Equipment and Software	15.4%	24.8%	20.5%	14.6%	18.7%
Contributions to GDP Growth (p.pts.)	Q3-10	Q2-10	Q1-10	Q4-09	4Q Avg.
PCE	1.7	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	1.6	0.8	2.6	2.8	2.0
Government	0.8	0.8	-0.3	-0.3	0.2
Net Exports	-1.7	-3.5	-0.3	1.9	-0.9

Source: Commerce Department

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