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3rd Quarter GDP (Advance)

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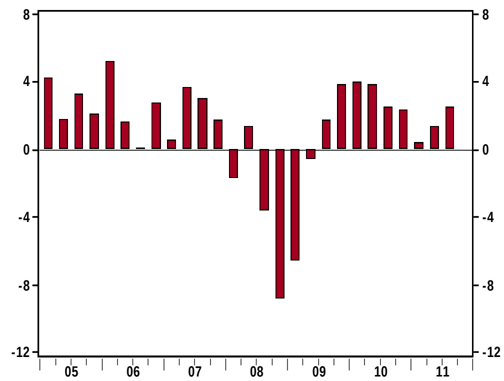
- The first estimate for Q3 real GDP growth is 2.5% at an annual rate, exactly as the consensus expected.
- The largest positive contributions to the real GDP growth rate were personal consumption, which grew at a 2.4% rate, and business investment, which grew at a 16.3% rate.
- The weakest component of real GDP, by far, was inventories, which reduced the real GDP growth rate by 1.1 points.
- The GDP price index increased at a 2.5% annual rate in Q3. Nominal GDP – real GDP plus inflation – rose at a 5.0% rate in Q3 and is up 4.1% versus a year ago.

Implications: Real GDP growth came in exactly as the consensus expected, but the make-up of Q3 data bodes well for the end of the year and beyond. The weakest part of today's report was inventories, which were a drag of 1.1 points on the real GDP growth rate. Inventories are at rock bottom levels. Any boost will add to GDP in the months and quarters ahead. If we exclude inventories, final sales grew at a robust 3.6% rate. This drag from inventories is not new. In the past four quarters, while overall real GDP has grown 1.6%, final sales (which exclude inventories) have grown a much more respectable 2.4%. Private final sales, which excludes the government, shows a strong underlying growth trend: up at a 4.4% annual rate in Q3 and up 3.5% from a year ago. Business investment grew at a 16.3% 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, or should. Even home building was up slightly, for the third time in the past four quarters. Nominal GDP (real growth plus inflation) grew at a 5% annual rate in Q3 and is up at a 4.5% rate in the past two years. The Federal Reserve cannot possibly justify another round of Quantitative Easing based on the growth rate of nominal GDP, nor should it continue to hold short-term interest rates near zero. In other news this morning, new claims for unemployment insurance dipped 2,000 last week to 402,000. Continuing claims for regular state benefits fell 96,000 to 3.65 million, the lowest since September 2008. On the housing front, pending home sales, which are contracts on existing homes, declined 4.6% in September, suggesting a slight dip in existing home sales in October.

Real GDP Growth

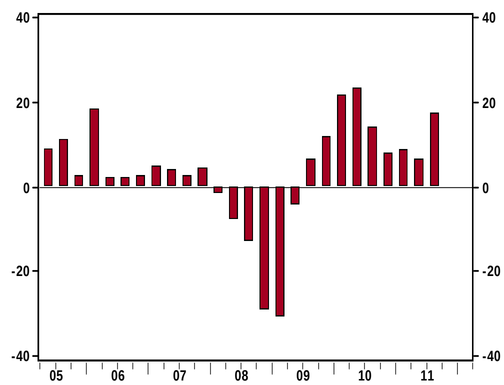
% Change - Annual Rate



Source: Bureau of Economic Analysis /Haver Analytics

Real Equipment & Software Investment

% Change - Annual Rate



Source: Bureau of Economic Analysis /Haver Analytics

3rd Quarter GDP *Seasonally Adjusted Annual Rates*	Q3-11	Q2-11	Q1-11	Q4-10	4-Quarter Change
Real GDP	**2.5%**	1.3%	0.4%	2.3%	1.6%
GDP Price Index	**2.5%**	2.5%	2.5%	1.9%	2.4%
Nominal GDP	**5.0%**	4.0%	3.1%	4.2%	4.1%
PCE	**2.4%**	0.7%	2.1%	3.6%	2.2%
Business Investment	**16.3%**	10.3%	2.1%	8.7%	9.2%
Structures	**13.3%**	22.6%	-14.4%	10.6%	7.1%
Equipment and Software	**17.4%**	6.3%	8.7%	8.0%	10.0%
Contributions to GDP Growth (p.pts.)	**Q3-11**	**Q2-11**	**Q1-11**	**Q4-10**	**4Q Avg.**
PCE	**1.7**	0.5	1.5	2.5	1.5
Business Investment	**1.5**	1.0	0.2	0.8	0.9
Residential Investment	**0.1**	0.1	-0.1	0.1	0.0
Inventories	**-1.1**	-0.3	0.3	-1.8	-0.7
Government	**0.0**	-0.2	-1.2	-0.6	-0.5
Net Exports	**0.2**	0.2	-0.3	1.4	0.4

Source: Commerce Department