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3rd Quarter GDP (Final)

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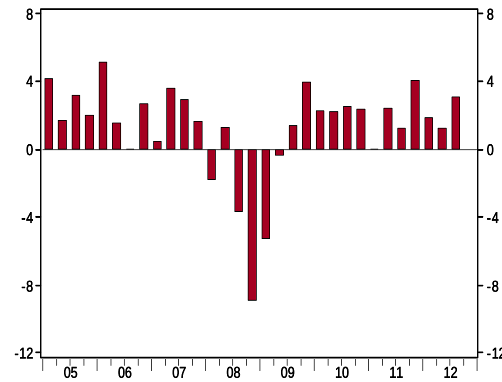
- Real GDP growth in Q3 was revised up to a 3.1% annual rate versus a prior estimate of 2.7%. The consensus had expected 2.8%.
- The largest positive revisions were for net exports and consumer spending. Other components of GDP showed only small changes.
- The largest positive contributions to the real GDP growth rate in Q3 came from consumer spending, government, and inventories. The weakest component of real GDP was business investment.
- The GDP price index was unrevised at a 2.7% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 5.9% annual rate versus a prior estimate of 5.5%. Nominal GDP is up 4.3% versus a year ago.

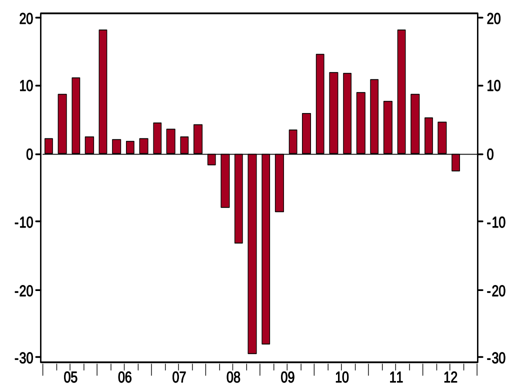
Implications: Real GDP growth for Q3 was revised up to a 3.1% annual rate from a prior estimate of 2.7%. Consensus expectations assumed a smaller upward revision to 2.8%, so today's headline was good news. Upward revisions for net exports and consumer spending were the primary reasons for the change. However, despite the headline of 3.1% growth the economy remains a plow horse. Government, inventories, and trade accounted for an unusually large portion of growth in Q3 and are unlikely to be sustained. Outside these three categories, the economy grew at only a 1.3% annual rate. Meanwhile, corporate profits were revised down slightly, mainly due to domestic non-financials. Still, profits are up at a 9.9% annual rate in Q3 and up 7.5% from a year ago. The most interesting news in today's report was that nominal GDP growth for Q3 – real GDP growth plus inflation – was revised up to a 5.9% annual rate, the fastest pace since 2007. Nominal GDP is up 4.3% in the past year. For comparison, the average growth for nominal GDP is 4% in the past 10 years and 4.6% in the past 20 years. In other words, the Federal Reserve is committed to keeping interest rates near zero and vastly expanding its balance sheet at the same time that nominal GDP growth appears quite normal. This can't be sustained without generating higher inflation in the next several years. In other news this morning, new claims for jobless benefits increased 17,000 last week to 361,000. Continuing claims for regular state benefits increased 12,000 to 3.23 million. These figures plus other economic data suggest payroll gains of about 180,000 in December. The Philadelphia Fed Index, a measure of manufacturing sentiment in that area, increased to +8.1 in December from -10.7 in November. This dramatic surge is probably related to the rebound from Sandy, but also reflects the underlying improvement in the housing market, which generates demand for many manufactured products.

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	Q3-12	Q2-12	Q1-12	Q4-11	4-Quarter Change
Real GDP	**3.1%**	1.3%	2.0%	4.1%	2.6%
GDP Price Index	**2.7%**	1.6%	2.0%	0.4%	1.6%
Nominal GDP	**5.9%**	2.8%	4.2%	4.2%	4.3%
PCE	**1.6%**	1.5%	2.4%	2.0%	1.9%
Business Investment	**-1.8%**	3.6%	7.5%	9.5%	4.6%
Structures	**0.0%**	0.6%	12.8%	11.5%	6.1%
Equipment and Software	**-2.6%**	4.8%	5.4%	8.8%	4.0%
Contributions to GDP Growth (p.pts.)	**Q3-12**	**Q2-12**	**Q1-12**	**Q4-11**	**4Q Avg.**
PCE	**1.1**	1.1	1.7	1.5	1.3
Business Investment	**-0.2**	0.4	0.7	0.9	0.5
Residential Investment	**0.3**	0.2	0.4	0.3	0.3
Inventories	**0.7**	-0.5	-0.4	2.5	0.6
Government	**0.8**	-0.1	-0.6	-0.4	-0.1
Net Exports	**0.4**	0.2	0.1	-0.6	0.0

Source: Commerce Department