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3rd Quarter GDP (Final)

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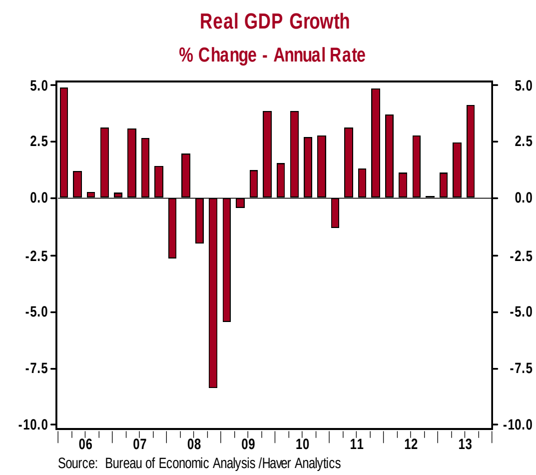
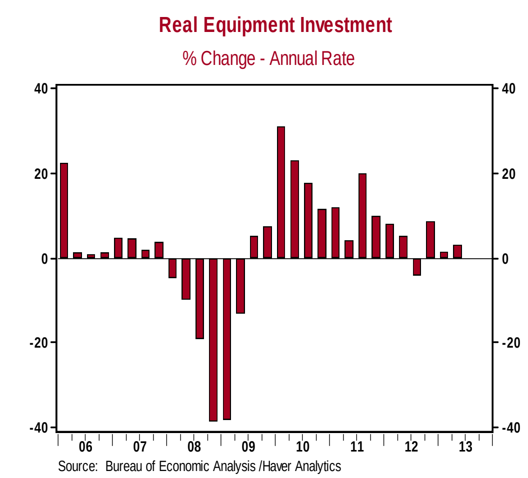
- Real GDP growth in Q3 was revised up to a 4.1% annual rate, from a prior estimate and consensus expected 3.6%.
- Upward revisions for personal consumption and business investment led to higher real GDP growth. Residential investment was revised slightly lower. Other components of GDP were little revised.
- The largest positive contributions to the real GDP growth rate in Q3 came from inventories and consumer spending. The weakest components of real GDP were government purchases and net exports.
- The GDP price index was unrevised at a 2.0% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 6.2% annual rate from a prior estimate of 5.6%. Nominal GDP is up 3.4% versus a year ago.

Implications: Today's final report for Q3 GDP showed a large unexpected upward revision to real GDP growth, to a 4.1% annual rate in Q3 versus the report last month of 3.6%. This is the fastest pace of growth since Q4 2011. The best part of the report was that both consumer spending and business investment were revised higher while inventories were unrevised, leaving the "mix" of growth slightly better for future quarters. Current forecasts for Q4 GDP growth expect a sharp slowdown, but as these revisions show, the underlying economy is strengthening. Beyond Q4, we expect the economy to pick up to an average growth rate of about 3%. Corporate profits were also revised up slightly for Q3 (up 7.7% annualized from Q2 and up 5.7% from a year ago). Nominal GDP – real GDP growth plus inflation – grew at a 6.2% annual rate in Q3, the highest growth for any quarter since Q1 2006! Nominal GDP is up 3.4% from a year ago and in the past two years, nominal GDP is up at a 4.1% annual rate. All of these nominal GDP growth rates suggest the Federal Reserve's 0% federal funds rate is too low and tapering "should" be proceeding at a faster pace than $10 billion per month. What we have here is a Plow Horse economy that's starting to trot.





3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-13	Q2-13	Q1-13	Q4-12	4-Quarter Change
Real GDP	4.1%	2.5%	1.1%	0.1%	2.0%
GDP Price Index	2.0%	0.6%	1.3%	1.1%	1.3%
Nominal GDP	6.2%	3.1%	2.8%	1.6%	3.4%
PCE	2.0%	1.8%	2.3%	1.7%	1.9%
Business Investment	4.8%	4.7%	-4.6%	9.8%	3.5%
Structures	13.4%	17.6%	-25.7%	17.5%	3.9%
Equipment	0.2%	3.2%	1.6%	8.9%	3.4%
Intellectual Property	5.7%	-1.5%	3.8%	5.7%	3.4%
Contributions to GDP Growth (p.pts.)	**Q3-13**	**Q2-13**	**Q1-13**	**Q4-12**	**4Q Avg.**
PCE	1.4	1.2	1.5	1.1	1.3
Business Investment	0.6	0.6	-0.6	1.1	0.4
Residential Investment	0.3	0.4	0.3	0.5	0.4
Inventories	1.7	0.4	0.9	-2.0	0.3
Government	0.1	-0.1	-0.8	-1.3	-0.5
Net Exports	0.1	-0.1	-0.3	0.7	0.1