3rd Quarter GDP (Preliminary)

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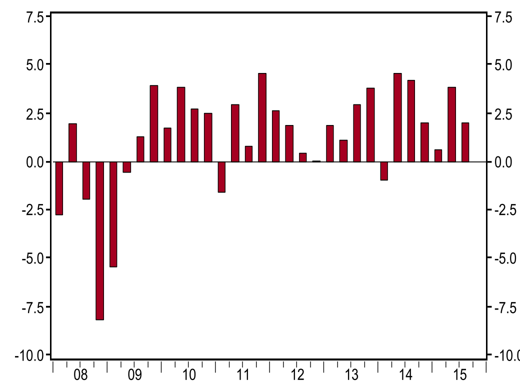
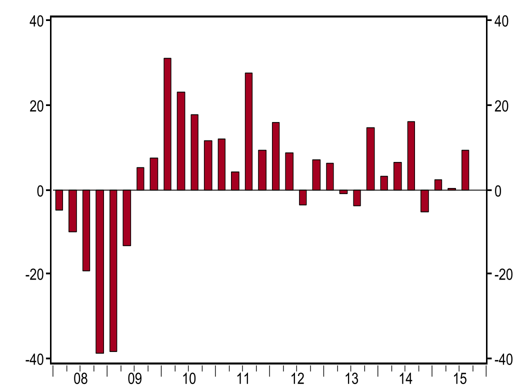
- Real GDP was revised to a 2.1% annual growth rate in Q3, exactly as the consensus expected, from a prior estimate of 1.5%.
- The upward revision was mostly due to inventories, while business investment in equipment was revised up as well. The largest downward revisions were for business investment in intellectual property as well as net exports.
- The largest positive contribution to the real GDP growth rate in Q3 was personal consumption. The largest drag on growth was inventories.
- The GDP price index was revised higher to a 1.3% annual growth rate from a prior estimate of 1.2%. Nominal GDP growth – real GDP plus inflation – was revised up to a 3.4% annual rate from a prior estimate of 2.7%.

Implications: Good news and bad news in today's GDP report, which is exactly what we should expect given the Plow Horse Economy. The good news is obvious: real GDP growth in the third quarter was revised up to a more respectable 2.1% annual rate from a previous estimate of 1.5%. In addition, business investment in equipment grew at the fastest pace in a year, despite being weighed down by fewer oil rigs and drilling equipment. The pick-up in equipment should help boost future productivity growth. However, the biggest driver of the upward GDP revision was inventories, which can't be relied on for long-term growth. In addition, corporate profits declined 1.1% in the third quarter and are down 4.7% from a year ago. The drop in profits was due to slower growth in advanced economies abroad and the stronger dollar, which pushed down profits earned abroad; profits earned domestically grew in Q3. In terms of monetary policy, today's report continues to flash green for the Federal Reserve to start raising rates in December. Nominal GDP (real growth plus inflation) was revised up to a 3.4% annual growth rate in Q3 from a prior estimate of 2.7%. Nominal GDP is up 3.1% from a year ago and up at a 3.9% annual rate in the past two years. These figures show the Fed's target of essentially zero for short-term interest rates is too low and monetary policy is too loose. On the housing front, the national Case-Shiller index, which measures prices across the country, increased 0.8% in September and is up 4.9% from a year ago. The largest gains in the past year have been in San Francisco, Denver, Portland, and Dallas. Given that national average home prices have already reached fair value, we expect the gains in home prices to continue, but at a slower pace over the next couple of years. In other news this morning, the Richmond Fed index, a measure of mid-Atlantic manufacturing sentiment, fell to -3 in November from -1 in October. Plugging this into our models suggests the national ISM index will be up in November, but only modestly.



Source: Bureau of Economic Analysis /Haver Analytics



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2nd Quarter GDP *Seasonally Adjusted Annual Rates*	Q3-15	Q2-15	Q1-15	Q4-14	4-Quarter Change
Real GDP	**2.1%**	3.9%	0.6%	2.1%	2.2%
GDP Price Index	**1.3%**	2.1%	0.1%	0.1%	0.9%
Nominal GDP	**3.4%**	6.1%	0.8%	2.2%	3.1%
PCE	**3.0%**	3.6%	1.7%	4.3%	3.2%
Business Investment	**2.4%**	4.1%	1.6%	0.7%	2.2%
Structures	**-7.1%**	6.3%	-7.4%	4.2%	-1.2%
Equipment	**9.5%**	0.3%	2.3%	-4.9%	1.7%
Intellectual Property	**-0.9%**	8.3%	7.4%	6.9%	5.4%
Contributions to GDP Growth (p.pts.)	**Q3-15**	**Q2-15**	**Q1-15**	**Q4-14**	**4Q Avg.**
PCE	**2.1**	2.4	1.2	2.9	2.1
Business Investment	**0.3**	0.5	0.2	0.1	0.3
Residential Investment	**0.2**	0.3	0.3	0.3	0.3
Inventories	**-0.6**	0.0	0.9	0.0	0.1
Government	**0.3**	0.5	0.0	-0.3	0.1
Net Exports	**-0.2**	0.2	-1.9	-0.9	-0.7