

# U.S. Q3 Real GDP: Better Days Ahead

U.S. real GDP rose a somewhat better-than-expected 3.5% a.r. in Q3, following four straight quarterly declines and likely marking the end of the Great Recession (and a 3.8% contraction since the peak in 2008Q2, the worst in seven decades). The details revealed underlying strength, with growth limited by a drop in non-residential construction and a surge in imports. Outside of these two areas, the economy fired on most cylinders, with consumer spending climbing the most in two years (+3.4%), and not just because of the cash-for-clunkers program. Motor vehicle sales added 1 ppt to GDP growth, and a little more to consumer spending growth. Exports surged 14.7% due to the weaker greenback and recovering global economy. The big surprise was a massive 23.4% jump in residential construction, the first increase in nearly four years. Inventories added less to GDP growth than was assumed, which will work to support production in Q4 (where we see growth of 3%, with upside risk). Final sales (or GDP ex-inventories) grew a much stronger-than-expected 2.6%, and final domestic demand jumped 3%, assisted by modest gains in government spending and business capex, suggesting forward momentum heading into the final quarter of the year.

	(quarter/quarter % change : s.a.a.r.)			(year/year % change)
	09Q3 A	09Q2	09Q1	
<b>Real GDP</b>	3.5	-0.7	-6.4	-2.3
<b>Consumer Spending</b>	3.4	-0.9	0.6	0.0
<b>Residential Investment</b>	23.3	-23.2	-38.2	-18.1
<b>Nonresidential Fixed Investment</b>	-2.5	-9.6	-39.2	-18.9
<b>Business Equipment</b>	1.1	-4.9	-36.4	-17.9
<b>Structures</b>	-9.0	-17.3	-43.6	-20.8
<b>Government</b>	2.3	6.7	-2.6	1.8
<b>Exports</b>	14.7	-4.1	-29.9	-11.2
<b>Imports</b>	16.3	-14.7	-36.4	-14.9
<b>Net Exports (2005 US\$bln)</b>	-348.3	-330.4	-386.5	
<b>Inventory Change (2005 US\$bln)</b>	-130.8	-160.2	-113.9	
<b>Final Sales</b>	2.6	0.7	-4.1	-1.5
<b>Chain Price Index</b>	0.8	0.0	1.9	0.7
<b>Domestic Purchases Prices</b>	1.6	0.5	-1.4	-0.8
<b>Nominal GDP</b>	4.3	-0.8	-4.6	-1.7

**The Bottom Line:** The recession likely ended sometime in Q3, though the recovery will be choppy. While real GDP growth likely continued in Q4, supported by improvement in the housing sector (the likely passage of a proposal to extend and expand the home buyer tax credit should help), the economy continues to face headwinds (consumer deleveraging, tight credit, rising foreclosures, and rising commercial real estate vacancy rates). Still, the underlying strength within the Q3 GDP report provides much hope that the worst is behind us.

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