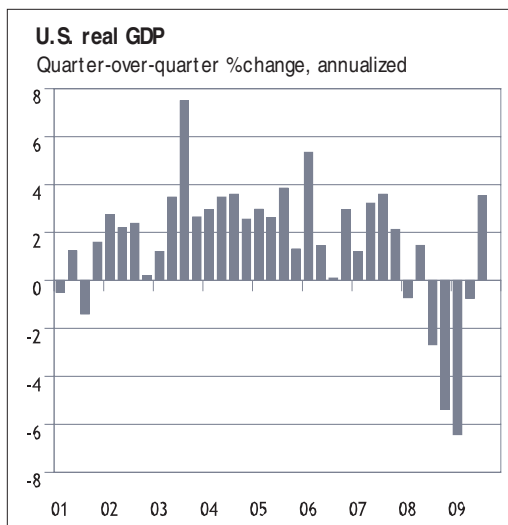


U.S. NATIONAL GDP ACCOUNTS

October 29, 2009



Rise in GDP ends string of four consecutive quarterly declines

The first, or advance, estimate of third-quarter GDP indicated that the economy rose a robust 3.5% at an annual rate. This was slightly above market expectations of a 3.2% increase and represented the first increase in five quarters, including a 6.4% drop in the first quarter and a 0.7% decline in the second.

Consumer spending rose a very strong 3.4% following a 0.9% drop in the second quarter, largely powered ahead by the 22.3% rise in durables consumption reflecting the impact of the cash-for-clunker rebates. The increase in this component added 1.5 percentage points to the overall quarterly increase in GDP. Gains in non-durable and services consumption were up by a much more modest 2% and 1.2%, respectively.

Residential investment surged by 23.4%, thus ending 14 consecutive quarters of decline. Investment in equipment and software rose by a relatively modest 1.1% following six quarters of decline. Inventories were reduced by a sizeable US\$130.8B (in chained 2005 dollars).

Annualized growth in the core PCE deflator, the key inflation measure in the GDP report, moderated as expected to 1.4% from 2% in the second quarter.

The return to positive GDP growth after four quarters of decline is encouraging. As well, the strength reflected the return to positive growth by a number of key expenditure areas with inventories continuing to be drawn down. The lower level of inventories implies a greater need for production as demand continues to trend higher.

However, much of the strength in third-quarter consumer spending reflected the impact of the cash-for-clunker rebates, which sent motor vehicle sales significantly higher. With those rebates ending in September, the Fed is expected to keep monetary conditions very accommodative to help sustain demand.

Q3 national accounts: Advance estimate

Annualized % change from previous quarter

	Q2/08	Q3/08	Q4/08	Q1/09	Q2/09	Q3/09
Consumer spending	0.1	-3.5	-3.1	0.6	-0.9	3.4
Durables	-5.7	-11.7	-20.3	3.9	-5.6	22.4
Non-durables	2.2	-5.6	-4.9	1.9	-1.9	2.0
Services	0.4	-1.3	0.5	-0.3	0.2	1.2
Business fixed investment	-10.4	-6.9	-24.2	-50.5	-23.7	11.5
Residential	-15.8	-15.9	-23.2	-38.2	-23.2	23.3
Non-residential structures	14.5	-0.1	-7.2	-43.6	-17.3	-9.0
Equipment and software	-5.0	-9.4	-25.9	-36.4	-4.9	1.1
Government spending	3.6	4.8	1.2	-2.6	6.7	2.3
Inventory change (\$ bn)	-37.1	-29.7	-37.4	-113.9	-160.2	-130.8
Final domestic demand	0.3	-2.7	-4.9	-6.4	-0.9	3.0
Exports	12.1	-3.6	-19.5	-29.9	-4.1	14.7
Imports	-5.0	-2.2	-16.7	-36.4	-14.7	16.3
Real GDP	1.5	-2.7	-5.4	-6.4	-0.7	3.5

Paul Ferley

Assistant Chief Economist
paul.ferley@rbc.com