



TD Economics

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Data Release: U.S. GDP revised down to 2.0% from 2.5% on second estimate. Details still good.

- U.S. third quarter real GDP was revised down to 2.0% (annualized) from an initial estimate of 2.5% on the BEA's second estimate. This was also below market expectations for 2.5%.
- There were slight downward revisions to most components of GDP. Real PCE is now reported to have grown by 2.3% (from 2.4%), private fixed investment by 12.3% (from 13.7%), and government consumption by -0.1% (from 0.0%).
- However, the largest single source of revisions was inventory investment, which subtracted 1.55 percentage points (pp) from economic growth (from a previously estimated -1.08 pp).
- Net-exports were the one source of positive revision. Exports were revised up to 4.3% (from 4.0%) and import growth was revised down to 0.5% (from 1.9%).
- U.S. corporate profits grew by 2.1% (8.5% at an annualized rate) in the third quarter. This marked a slight deceleration in growth from 3.3% the second quarter. Corporate profits as a share of GDP are at 13.0%, their highest level since 1950 and the second highest level in the history of the series going back to 1947.

Key Implications

- Today's revisions, while showing less growth in Q3, bode well for growth in the fourth quarter. Retail sales in October point to an acceleration in consumer spending, and with a cut in inventory investment, production in the fourth quarter looks set to accelerate to around 3.0%.
- Political events overshadowed economic ones in the third quarter. The extended debate over the statutory debt ceiling and subsequent downgrade of US sovereign debt by S&P kicked off a pessimistic tone in financial markets that has continued well into the final months of this year.
- While demand has held up surprisingly well, policy uncertainty remains a key downside risk to the economic outlook. The failure of the super committee is just the latest example of extreme political gridlock in Washington and heightens the risk that significant fiscal restraint could be put in place before the private sector has the strength to absorb it.

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