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DECISION ECONOMICS, INC.
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New York: 212 884 9440
London: 011 44 20 7814 6706
Boston: 617 994 0500
Email: decisioneconomics@pdeeco.com

Pierre Ellis

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GDP Revision: Not weaker

Revised third-quarter GDP growth undershoots expectations, coming in at +2.0% (Consensus and Decision Economics: unrevised at +2.5%). However, the composition of the changes is not revised "weaker" to the same extent as the headline number, and might even be seen as marginally stronger.

The main factor in the revision was a downward adjustment in the inventory component, such that it now shows a swing to an outright decline in stocks, as opposed to simply a significant slowdown--with the negative contribution to overall growth expanded to 1.6 points from 1.1 points.

That is a strengthening change, keeping inventories leaner than they seemed to be earlier--and demonstrating even greater prudence on the part of managers, so that downside risks are lessened.

Final sales growth, meanwhile, was unrevised at +3.6%, with an upward revision to net exports, taking the positive contribution to GDP from 0.2 point to 0.5 point, offsetting marginal downward revisions to all domestic final demand categories (Final sales to domestic purchasers were revised down insignificantly, to +3.0% from +3.2%).

Net assessments at the Fed will see this as an inconsequentially changed domestic picture, a somewhat better international performance, and a reassuringly more aggressive inventory management performance.

Big-picture views will not change, with doves pointing to the unaltered bottom line of too-high unemployment, and seeing no new reason in these data to expect faster correction, while hawks will be incrementally more comfortable in waiting for past policy easing to take hold.

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