



Economics Group

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GDP Up 3.5%—Recession Ends, but What is Sustainable?

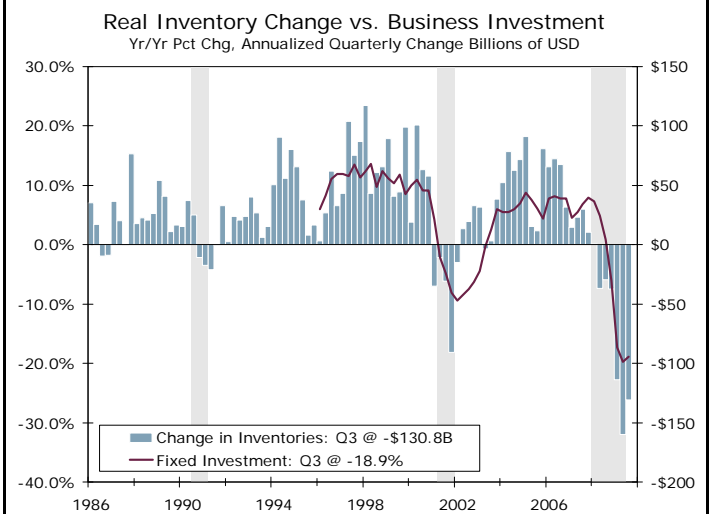
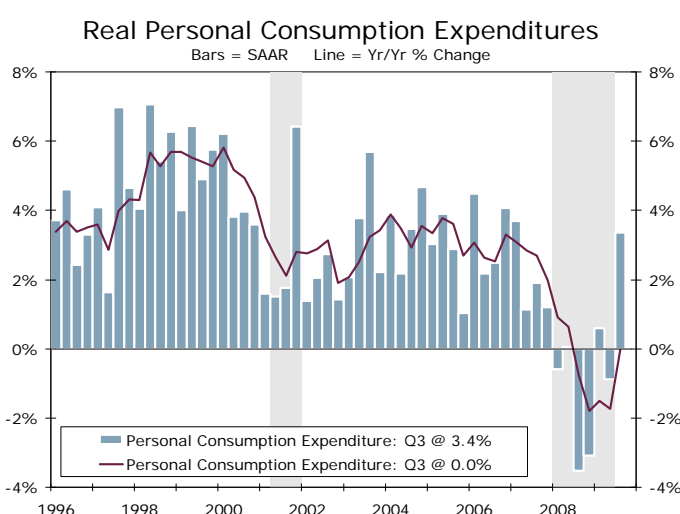
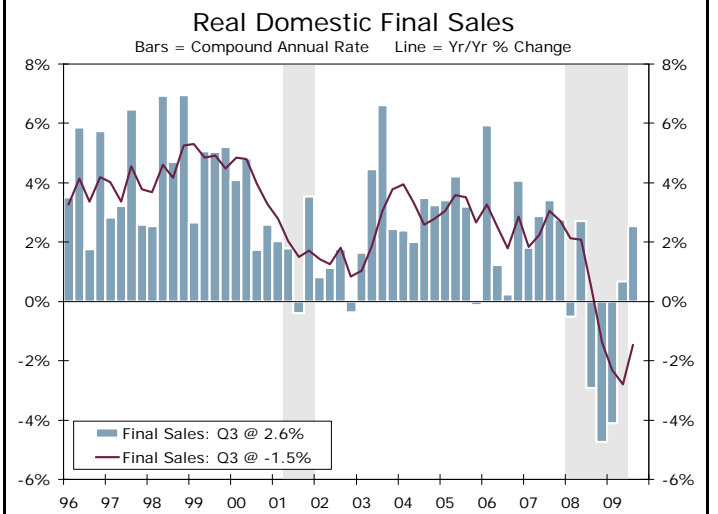
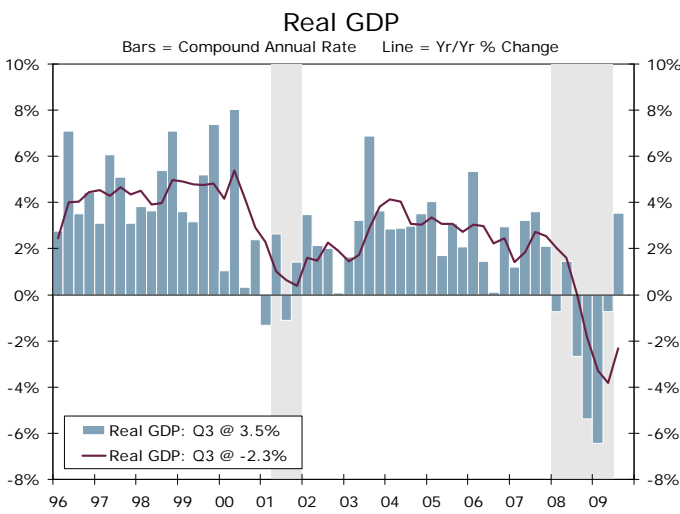
Real GDP grew at a 3.5 percent rate in Q3, led by federal government spending and inventory turnaround. Final sales gained as federal credits helped consumer spending and housing. Equipment spending was up.

Growth Improves, Final Sales Build Case for Recovery

- The GDP gain reflects the fiscal stimulus spending with housing and consumer spending on durables both increasing. Inventory gains also added nearly one percentage point while net exports took off one-half a percentage point.
- Final sales continue to improve and this provides the underlying demand for growth. Our expectations are for moderate growth—not a boom.

Investment and Inflation

- Business investment continued to improve for equipment, suggesting a sustained recovery. However, weakness persists for nonresidential construction, which traditionally lags the recovery. We expect no difference this time.
- Inflation remains low with the core PCE deflator up just 1.4 percent, which should allow the Fed to leave the funds rate unchanged for now.



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

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