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4TH QUARTER GDP (PRELIMINARY)

- Real GDP was revised to show a 1.6% growth rate in Q4 versus the originally reported 1.1%. Despite the upward revision, Q4 was the slowest quarterly growth rate in three years. The GDP chain-weighted price index was revised up to 3.3% in Q4 (originally +3.0%). Nominal GDP (or aggregate demand) rose 5.0% at an annual rate in Q4 (originally +4.2%).
- Real business investment grew at an annualized 5.4% in Q4 an upward revision from the originally reported 2.8% gain. During the 11 quarters following the 2003 tax cut, real business investment has increased at an annual average of 8.7% - more than twice as fast as the overall economy. Equipment and software investment rose an annualized 6.2% in Q4 (originally +3.5%), while residential investment was up 2.6% at an annual rate (originally +3.5%). Real personal consumption expenditures were revised slightly higher to a 1.2% annualized growth rate in Q4 from 1.1%.
- Inventories expanded by \$30.4 billion in Q4 (originally +\$25.7 billion). This added 1.6% to real growth. However, the trade deficit widened to a record \$656.2 billion in Q4 (originally \$650.3 billion), which subtracted 1.4% from real growth. Removing the effects of the inventories, the trade deficit, and government purchases, "core" real GDP (C + FI) grew 1.8% in the Q4 (originally +1.5%).

Implications: As expected, real GDP growth was upwardly revised to 1.6% at an annual rate in Q4 from the original estimate of 1.1%. Upward revisions to equipment and software investment, inventories, exports and government purchases pushed growth higher than originally reported. These upward revisions were partially offset by increased imports which caused the trade deficit to subtract 1.4% from growth. We believe that the weakness in Q4 was driven by temporary factors, partly due to hurricane Katrina. Data already released in Q1 point to a sharp rebound. Initial claims for unemployment benefits have been below 300,000 for six consecutive weeks and retail sales jumped 2.3% in January. As a result, we expect real GDP growth to reach 5.5% at an annual rate in Q1. While inflation remains subdued (the 4-quarter change in the "core" PCE deflator has slowed to 1.9% from 2.2% in the past year), nominal growth is solidly above 6%. This suggests that past Fed accommodation is still working its way through the system and the threat of higher inflation still exists.

4th Quarter GDP <i>All Data Seasonally Adjusted</i>	Q4-05	Q3-05	Q2-05	Q1-05	4 Quarter Change
Nominal GDP	5.0%	7.6%	6.0%	7.0%	6.4%
Real GDP	1.6%	4.1%	3.3%	3.8%	3.2%
Chain-Weight Price Index	3.3%	3.3%	2.6%	3.1%	3.1%
PCE	1.2%	4.1%	3.4%	3.5%	3.0%
Durable	-16.6%	9.3%	7.9%	2.6%	0.2%
Nondurable	5.1%	3.5%	3.6%	5.3%	4.4%
Services	3.0%	3.3%	2.4%	2.8%	2.9%
Nonresidential Fixed Investment	5.4%	8.4%	8.8%	5.7%	7.1%
Structures	3.3%	2.2%	2.7%	-2.0%	1.5%
Equipment, Software	6.2%	10.6%	11.0%	8.3%	9.0%
Residential Investment	2.6%	7.3%	10.8%	9.5%	7.5%
Change in Inventories* (Level, \$Bn)	30.4	-13.3	-1.7	58.2	18.4
Net Exports* (Level, \$Bn)	-656.2	-617.5	-614.2	-645.4	-633.3
Exports	5.7%	2.5%	10.7%	7.5%	6.5%
Imports	12.8%	2.4%	-0.2%	7.4%	5.5%
Government Purchases	-0.7%	2.9%	2.5%	1.9%	1.6%
GDP Final Sales	0.0%	4.6%	5.6%	3.5%	3.4%

Source: Commerce Department

*4-Quarter Change = Avg. Quarterly Change

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