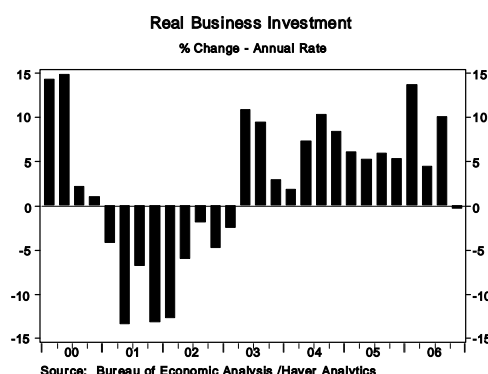
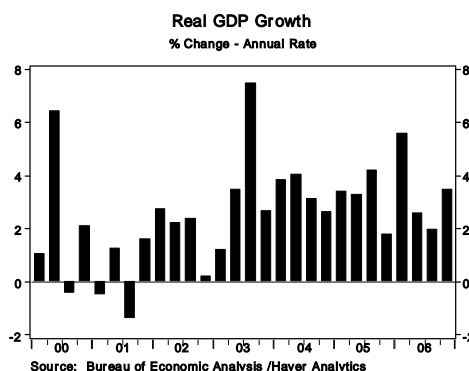


4TH QUARTER GDP (ADVANCED)

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- Real GDP increased at an annual rate of 3.5% in Q4, beating the consensus forecast of 3.0%. Real GDP was up 3.4% versus a year ago.
- Strong components of real GDP growth included consumption and net exports. Real consumption increased at a 4.4% annual rate and net exports added 1.6 percentage points to the real GDP growth rate (the most in ten years). Weak components of real GDP included business investment, housing, and inventories. Business investment declined at a 0.4% annual rate; residential investment declined at a 19.2% rate (the fifth straight decline and the largest in more than 15 years); inventories subtracted 0.7 points from the real GDP growth rate.
- The GDP price index increased at a 1.5% annual rate, matching the consensus forecast. The core consumption deflator (PCE ex-food and energy) increased at a 2.1% rate and was up 2.3% in 2006 (Q4/Q4), the largest increase in any calendar year since 1994. Nominal GDP (aggregate demand) grew at a 5% annual rate in Q4, was up 5.9% versus last year, and was up at a 6.1% rate over the prior two years (6.4% excluding housing).

Implications: Today's GDP report shows that the economy remained strong in Q4 and suggests robust growth ahead. There are still no signs that the on-going correction in the housing market is damaging the rest of the economy. Excluding housing, real GDP growth would have been 4.8%. Consumption and business investment, combined, contributed 3 percentage points to the real GDP growth rate. Although business investment declined for the first time in almost four years, we believe this will be reversed quickly as firms make use of the past few years of high profit growth and strong corporate balance sheets. Moreover, the decline in inventory investment in Q4 makes room for more GDP growth in early 2007. We also note that the growth rate of nominal GDP over the past two years shows the Fed is still loose and higher inflation is in the pipeline. Nothing in today's data alters our 2007 outlook for both better growth and more inflation than the consensus expects



4th Quarter GDP	Q4-06	Q3-06	Q2-06	Q1-06	4 Quarter
<i>Seasonally Adjusted Annual Rates</i>					<i>Change</i>
Real GDP	3.5%	2.0%	2.6%	5.6%	3.4%
GDP Price Index	1.5%	1.9%	3.3%	3.3%	2.5%
Nominal GDP	5.0%	3.9%	5.9%	9.0%	5.9%
PCE	4.4%	2.8%	2.6%	4.8%	3.7%
Durables	6.0%	6.4%	-0.1%	19.8%	7.8%
Nondurables	6.9%	1.5%	1.4%	5.9%	3.9%
Services	2.9%	2.8%	3.7%	1.6%	2.7%
Business Investment	-0.4%	10.0%	4.4%	13.7%	6.8%
Structures	2.7%	15.7%	20.3%	8.8%	11.7%
Equipment and Software	-1.8%	7.7%	-1.4%	15.6%	4.8%
Contributions to GDP Growth (p.pts.)	Q4-06	Q3-06	Q2-06	Q1-06	4Q Avg.
PCE	3.1	2.0	1.8	3.4	2.6
Business Investment	-0.1	1.0	0.5	1.4	0.7
Residential Investment	-1.2	-1.2	-0.7	0.0	-0.8
Inventories	-0.7	0.1	0.4	0.0	-0.1
Government	0.7	0.3	0.2	0.9	0.5
Net Exports	1.6	-0.2	0.4	0.0	0.5

Source: Commerce Department