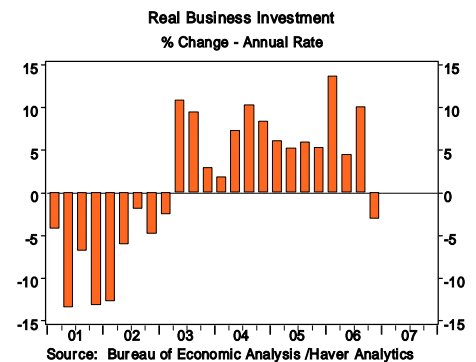
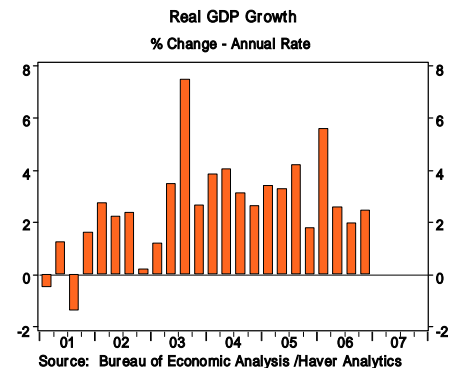


## 4<sup>TH</sup> QUARTER GDP (FINAL)

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- Real GDP growth for the fourth quarter was revised upward to a 2.5% annualized growth rate from a previously estimated 2.2%. The upward revision is attributable to a smaller decline in inventories and fewer imports than originally estimated. Excluding housing, real GDP growth expanded at a 3.7% annual rate.
- The GDP price index was unchanged at 1.7%. Nominal GDP growth – real GDP plus inflation – was revised up to 4.1% from 3.9%.
- Corporate profits before-tax fell at a 1.2% annual rate in the fourth quarter but increased at a 3.3% rate on an after-tax basis. Profits are still way up from a year ago: 18.3% before-tax and 21.0% after-tax. Much of the weakness in fourth quarter profits was due to domestic oil and coal manufacturers. Excluding these firms, pre-tax profits increased at a 7.1% rate.

**Implications:** We are happy to see real GDP growth revised upward. But given that the fourth quarter ended three months ago, we don't make much of today's report. We continue to expect faster growth in 2007. The important news of the day was the decline in unemployment claims. Initial claims for jobless benefits fell to 308,000, the lowest level in ten weeks. Continuing claims for jobless benefits were 2.527 million, almost 100,000 less than a month ago, suggesting next week's employment report for March will show a very large increase in payrolls.



<b>4th Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q4-06</b>	<b>Q3-06</b>	<b>Q2-06</b>	<b>Q1-06</b>	<b>4 Quarter Change</b>
<b>Real GDP</b>	<b>2.5%</b>	2.0%	2.6%	5.6%	3.1%
<b>GDP Price Index</b>	<b>1.7%</b>	1.9%	3.3%	3.3%	2.5%
<b>Nominal GDP</b>	<b>4.1%</b>	3.9%	5.9%	9.0%	5.7%
<b>PCE</b>	<b>4.2%</b>	2.8%	2.6%	4.8%	3.6%
<b>Durables</b>	<b>4.4%</b>	6.4%	-0.1%	19.8%	7.4%
<b>Nondurables</b>	<b>5.9%</b>	1.5%	1.4%	5.9%	3.7%
<b>Services</b>	<b>3.4%</b>	2.8%	3.7%	1.6%	2.9%
<b>Business Investment</b>	<b>-3.1%</b>	10.0%	4.4%	13.7%	6.0%
<b>Structures</b>	<b>0.9%</b>	15.7%	20.3%	8.8%	11.2%
<b>Equipment and Software</b>	<b>-4.8%</b>	7.7%	-1.4%	15.6%	4.0%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q4-06</b>	<b>Q3-06</b>	<b>Q2-06</b>	<b>Q1-06</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>2.9</b>	2.0	1.8	3.4	2.5
<b>Business Investment</b>	<b>-0.3</b>	1.0	0.5	1.4	0.6
<b>Residential Investment</b>	<b>-1.2</b>	-1.2	-0.7	0.0	-0.8
<b>Inventories</b>	<b>-1.2</b>	0.1	0.4	0.0	-0.2
<b>Government</b>	<b>0.6</b>	0.3	0.2	0.9	0.5
<b>Net Exports</b>	<b>1.6</b>	-0.2	0.4	0.0	0.4

Source: Commerce Department