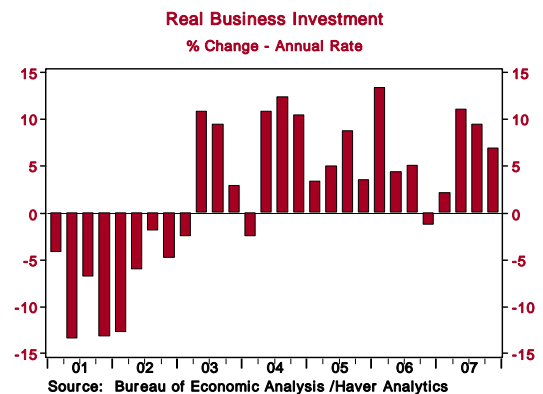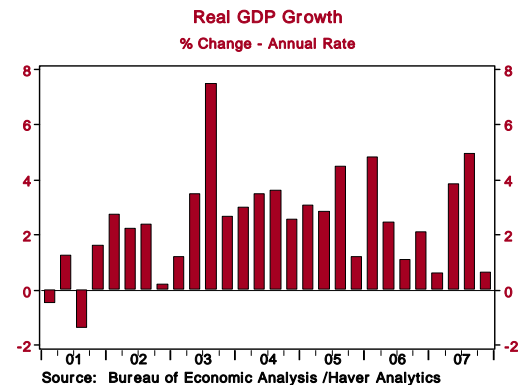# 4ᵀᴴ QUARTER GDP (PRELIM)

*Chief Economist – Brian S. Wesbury*
*Senior Economist – Robert Stein, CFA*

- Real GDP was left unrevised at a 0.6% annual growth rate in Q4 versus a consensus expected upward revision to 0.8%. Real GDP grew 2.5% in 2007.

- The largest, and only, upward revision was in net exports, which added 0.9 points to real GDP growth rather than the original estimate of 0.4. The largest downward revision was to inventories, which subtracted 1.5 points from real GDP growth versus the originally estimated 1.3 points. Business investment, home building, government spending, and personal consumption were all revised downward but only slightly.

- Inventories and housing remained the largest drags on real GDP growth in Q4, lopping off 1.5 points and 1.3 points, respectively. Real final sales – real GDP excluding inventories – increased at a 2.1% rate in Q4. Excluding housing, real GDP grew at a 1.8% rate.

- The GDP price index was revised up a 2.7% annual rate in Q4 versus an originally estimated 2.6%. Nominal GDP growth – real GDP plus inflation – was revised up to a 3.3% growth rate in Q4 versus an original estimate of 3.2%.

**Implications:** Real GDP growth was slow in the fourth quarter. However, the major drags on growth were inventories and housing. With inventory-to-sales ratios already very low and most of the decline in home building behind us rather than ahead of us, neither factor should be as negative in 2008 as a whole. Outside the housing sector, real GDP grew 3.5% in 2007, the fastest for any calendar year since 1999. Nominal GDP growth – real GDP plus inflation – was up 5.2% in 2007, a level which calls for a much higher federal funds rate than 3%. In other news this morning, initial claims for jobless benefits increased 19,000 to 373,000 while continuing claims increased 21,000 to 2.807 million, the highest since September 2004 (excluding the immediate aftermath of Hurricanes Katrina and Rita in 2005).



**Real GDP Growth**
% Change - Annual Rate
Source: Bureau of Economic Analysis /Haver Analytics



**Real Business Investment**
% Change - Annual Rate
Source: Bureau of Economic Analysis /Haver Analytics

| 4th Quarter GDP<br>*Seasonally Adjusted Annual Rates* | Q4-07 | Q3-07 | Q2-07 | Q1-07 | *4-Quarter Change* |
|---|---|---|---|---|---|
| *Real GDP* | **0.6%** | 4.9% | 3.8% | 0.6% | 2.5% |
| *GDP Price Index* | **2.7%** | 1.0% | 2.6% | 4.2% | 2.6% |
| *Nominal GDP* | **3.3%** | 6.0% | 6.6% | 4.9% | 5.2% |
| *PCE* | **1.9%** | 2.8% | 1.4% | 3.7% | 2.5% |
| *Business Investment* | **6.9%** | 9.4% | 11.0% | 2.1% | 7.3% |
| *Structures* | **14.6%** | 16.4% | 26.2% | 6.3% | 15.7% |
| *Equipment and Software* | **3.3%** | 6.2% | 4.7% | 0.3% | 3.6% |
| *Contributions to GDP Growth  (p.pts.)* | Q4-07 | Q3-07 | Q2-07 | Q1-07 | 4Q Avg. |
| *PCE* | **1.3** | 2.0 | 1.0 | 2.6 | 1.7 |
| *Business Investment* | **0.7** | 1.0 | 1.1 | 0.2 | 0.8 |
| *Residential Investment* | **-1.3** | -1.1 | -0.6 | -0.9 | -1.0 |
| *Inventories* | **-1.5** | 0.9 | 0.2 | -0.7 | -0.3 |
| *Government* | **0.4** | 0.7 | 0.8 | -0.1 | 0.5 |
| *Net Exports* | **0.9** | 1.4 | 1.3 | -0.5 | 0.8 |

Source: Commerce Department