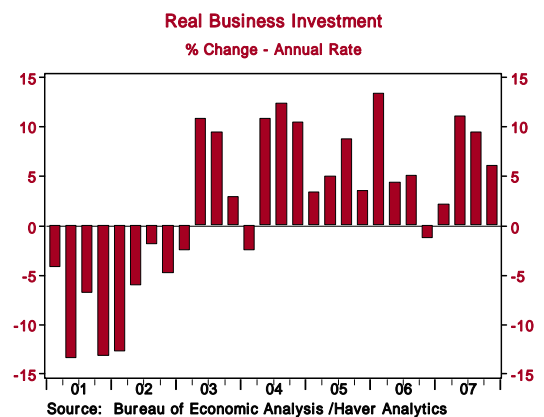
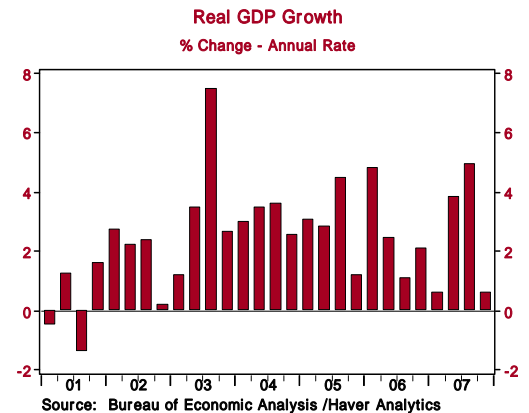


4TH QUARTER GDP (FINAL)

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- The final revision to Q4 real GDP showed no change from the 0.6% growth rate estimated last month, matching consensus expectations.
- Despite unchanged overall GDP growth, there were shifts in the components of GDP. The consumption of services was revised upward as were net exports. Inventories were revised downward as was business investment in structures. The housing sector remained the largest drag on real GDP growth. Excluding housing, real GDP grew at an unrevised 1.8% annual rate.
- The GDP price index was revised to a 2.4% annual growth rate from the 2.7% reported last month. GDP prices are up 2.6% versus last year. Nominal GDP growth – real GDP plus inflation – grew at a 3.0% rate in Q4 and was up 5.1% in 2007.

Implications: Real GDP growth was sluggish, but not negative, in the fourth quarter. However, because much of the weakness was due to declining inventories, the case for a rebound in growth to roughly 2% at an annual rate in Q1 is strong. Already, inventory data for January points to a sharp rebound. And while overall GDP inflation was revised lower in Q4, we seem to be going deeper into inflationary territory every day. The gross domestic *purchases* deflator increased at a 3.7% annual rate in Q4. Meanwhile, nominal GDP climbed 5.1% in 2007, which makes a federal funds rate of 2.25% way too low to reduce inflation. In other news this morning, new claims for unemployment insurance declined 9,000 to 366,000 last week. Continuing claims dropped 5,000 to 2.845 million. These figures corroborate growth in Q1, not recession.



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	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	2.4%	1.0%	2.6%	4.2%	2.6%
Nominal GDP	3.0%	6.0%	6.6%	4.9%	5.1%
PCE	2.3%	2.8%	1.4%	3.7%	2.6%
Business Investment	6.0%	9.4%	11.0%	2.1%	7.1%
Structures	12.4%	16.4%	26.2%	6.3%	15.1%
Equipment and Software	3.1%	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	1.6	2.0	1.0	2.6	1.8
Business Investment	0.6	1.0	1.1	0.2	0.7
Residential Investment	-1.3	-1.1	-0.6	-0.9	-1.0
Inventories	-1.8	0.9	0.2	-0.7	-0.3
Government	0.4	0.7	0.8	-0.1	0.5
Net Exports	1.0	1.4	1.3	-0.5	0.8

Source: Commerce Department