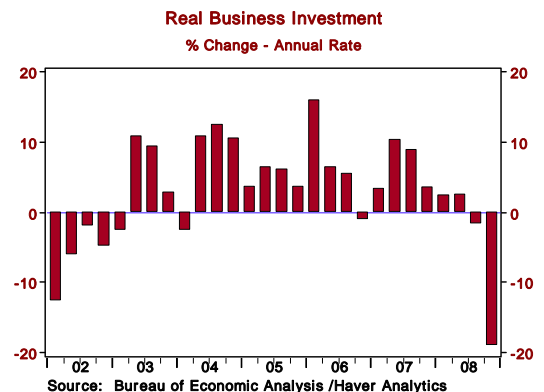
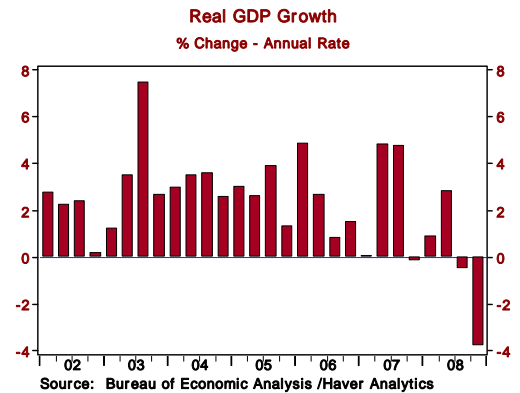


4TH QUARTER GDP (ADVANCE)

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- The first estimate for Q4 real GDP growth is -3.8% at an annual rate, beating the consensus expected -5.5%. Real GDP is down 0.2% versus last year.
- The weakest components of real GDP were personal consumption, which fell at the consensus expected 3.5% annual rate, and business investment in equipment and software, which dropped at a 27.8% rate. Home building fell at a 23.6% rate.
- The strongest component of real GDP was inventories, which added 1.3 points to the real GDP growth rate.
- The GDP price index fell at a 0.1% annual rate in Q4 and is up 1.9% versus last year. Nominal GDP – real GDP plus inflation – dropped at a 4.1% rate in Q4 and is up 1.7% versus a year ago.

Implications: Real GDP was better than the consensus expected for Q4. Nonetheless, the drop in the velocity of money was in full evidence, with real GDP falling at a 3.8% annual rate and nominal GDP down at a 4.1% rate. The drop in real GDP was less than expected because of higher inventories. That leaves two alternatives: either the inventory increase will be revised away in future reports (reducing Q4 real GDP growth) or the inventory correction in the first half of 2009 will be extremely sharp, meaning real GDP in Q1 may be even weaker than in Q4. The weakness in Q4 was concentrated in goods consumption and business investment in equipment and software. The drop in goods consumption was the steepest since 1950; the drop in equipment/software investment was the worst since 1958. Meanwhile, GDP prices fell 0.1% in Q4, the first decline since 1954. Due to energy price declines, overall consumption prices fell at a 5.5% annual rate, the largest drop on record (since 1947). Note that the 0.1% decline in GDP prices is much smaller than the 9.2% drop in the CPI for the quarter. Back in early 2008, when the CPI was going up faster than GDP prices, some analysts said real GDP was being reported artificially high. If these analysts used the same argument now they would have to suggest real GDP is being held artificially low.



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-08	Q3-08	Q2-08	Q1-08	4-Quarter Change
Real GDP	-3.8%	-0.5%	2.8%	0.9%	-0.2%
GDP Price Index	-0.1%	3.9%	1.1%	2.6%	1.9%
Nominal GDP	-4.1%	3.4%	4.1%	3.5%	1.7%
PCE	-3.5%	-3.8%	1.2%	0.9%	-1.3%
Business Investment	-19.1%	-1.7%	2.5%	2.4%	-4.4%
Structures	-1.7%	9.6%	18.4%	8.7%	8.5%
Equipment and Software	-27.8%	-7.5%	-5.0%	-0.5%	-10.9%
Contributions to GDP Growth (p.pts.)	Q4-08	Q3-08	Q2-08	Q1-08	4Q Avg.
PCE	-2.5	-2.8	0.9	0.6	-0.9
Business Investment	-2.3	-0.2	0.3	0.3	-0.5
Residential Investment	-0.9	-0.6	-0.5	-1.1	-0.8
Inventories	1.3	0.8	-1.5	0.0	0.2
Government	0.4	1.1	0.8	0.4	0.7
Net Exports	0.1	1.1	2.9	0.8	1.2

Source: Commerce Department