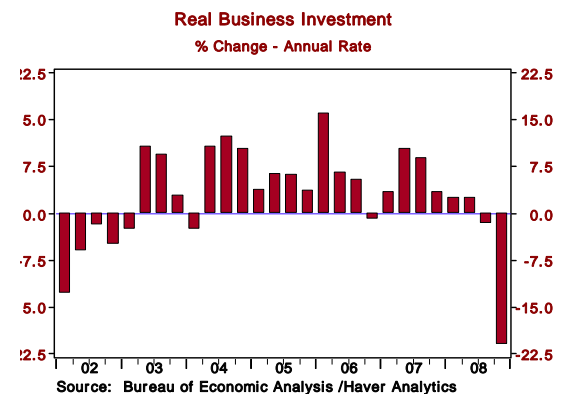
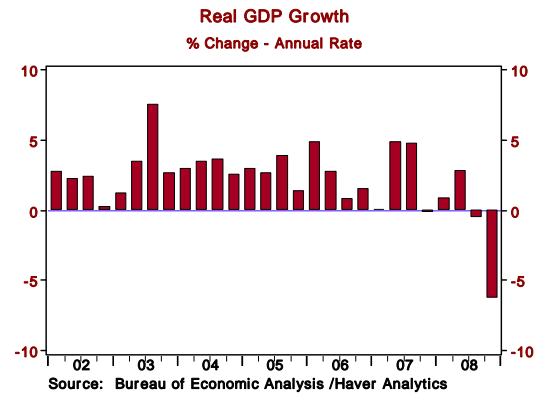


4TH QUARTER GDP (PRELIM)

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- Real GDP was revised down substantially to a -6.2% annual growth rate in Q4, even lower than the consensus expected -5.4%. Real GDP is down 0.8% versus a year ago.
- Almost all major categories of GDP were revised downward, with the largest adjustments to inventory, trade, and personal consumption. Inventory added only 0.2 points to real GDP growth in Q4, versus an original estimate of 1.3. Trade subtracted 0.5 points from real GDP growth versus a prior estimate that it added 0.1 point. Consumption subtracted 3.0 points versus the prior estimate of -2.5. The exception to the downward adjustments was home building, which subtracted 0.8 points from real GDP rather than the prior estimate of -0.9.
- The largest drags on real GDP in Q4 were personal consumption and business investment in equipment and software. The largest positive contributor to GDP was government spending.
- The GDP price index was revised to a 0.5% annual rate of increase from a prior estimate that it declined at a 0.1% rate. Nominal GDP growth – real GDP plus inflation – was revised down to a -5.8% annual rate in Q4 versus an original estimate of -4.1%.



Implications: Real GDP growth was revised down substantially for the fourth quarter of 2008, which was the worst quarter for economic growth since early 1982. However, roughly half of the downward revision was due to slower inventory accumulation than previously estimated. Given the rapid decline in consumption in the second half of 2008, businesses will be cutting inventories aggressively in the first half of 2009. Today's news suggests this task will be slightly easier than previously assumed. Although consumption fell at a 4.3% annual rate in Q4, we believe this rate of decline is unsustainable. Food consumption fell at an astounding 14.7% in Q4, the most on record. Autos are selling so slowly that it would take 25 years to replace the cars and light trucks already on the road. In other news this morning, the Chicago Purchasing Managers index, a measure of manufacturing in the Chicago region, increased to 34.2 in February from 33.3 in January. The consensus had expected a decline to 33.0.

4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-08	Q3-08	Q2-08	Q1-08	4-Quarter Change
Real GDP	-6.2%	-0.5%	2.8%	0.9%	-0.8%
GDP Price Index	0.5%	3.9%	1.1%	2.6%	2.0%
Nominal GDP	-5.8%	3.4%	4.1%	3.5%	1.2%
PCE	-4.3%	-3.8%	1.2%	0.9%	-1.5%
Business Investment	-21.0%	-1.7%	2.5%	2.4%	-5.0%
Structures	-5.9%	9.6%	18.4%	8.7%	7.3%
Equipment and Software	-28.8%	-7.5%	-5.0%	-0.5%	-11.2%
Contributions to GDP Growth (p.pts.)	Q4-08	Q3-08	Q2-08	Q1-08	4Q Avg.
PCE	-3.0	-2.8	0.9	0.6	-1.1
Business Investment	-2.5	-0.2	0.3	0.3	-0.5
Residential Investment	-0.8	-0.6	-0.5	-1.1	-0.8
Inventories	0.2	0.8	-1.5	0.0	-0.1
Government	0.3	1.1	0.8	0.4	0.7
Net Exports	-0.5	1.1	2.9	0.8	1.1

Source: Commerce Department