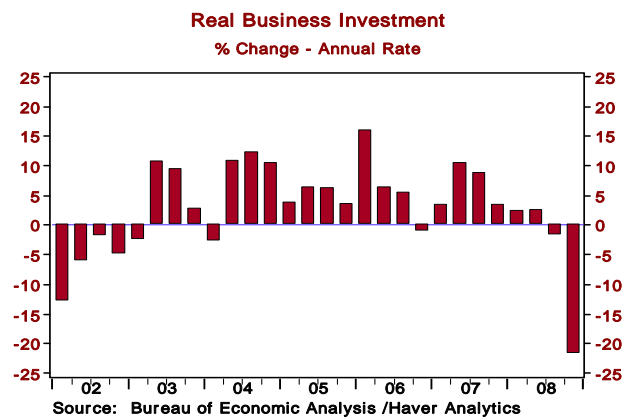
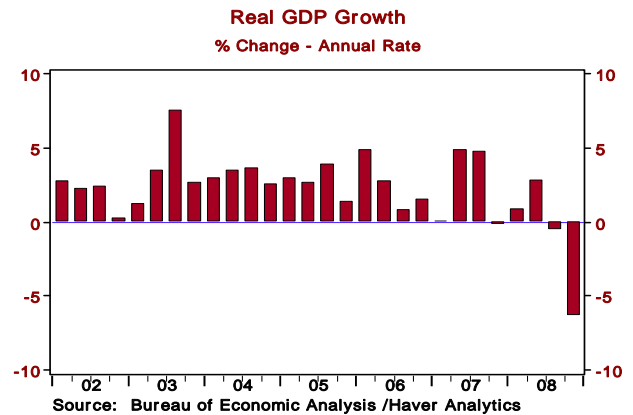


# 4<sup>TH</sup> QUARTER GDP (FINAL)

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- Real GDP growth in Q4 was revised down slightly to a -6.3% annual rate from a previous estimate of -6.2%. The consensus expected a larger downward revision to -6.7%. Real GDP is down 0.8% versus a year ago.
- The largest drags on real GDP in Q4 were personal consumption, which fell at a 4.3% annual rate, and business investment in equipment and software, which fell at a 28.1% rate. The largest positive contributor to real GDP growth in Q4 was government spending, which rose at a 1.3% rate.
- Compared to last month's estimate of Q4 real GDP growth, the largest downward revisions were for inventories and business investment in structures. The largest upward revision was for net exports.
- The GDP price index was unrevised to a 0.5% annual rate in Q4. Nominal GDP growth – real GDP plus inflation – was unrevised at a -5.8% annual rate in Q4.



**Implications:** The key data in today's GDP report was about corporate profits, not production (which was little revised). Corporate profits plunged in Q4, falling at a 51.4% annual rate, the fastest decline since the early 1950s. The drop in profits would have been even steeper were it not for a huge gain in the (inflation-adjusted) value of inventories. (Falling prices in Q4 mean inventories gained value!) However, these profit figures are for Q4, when risk aversion hysteria was at its worst. And even at this low level of profits, equities are cheap from a long-term fundamental perspective. Moreover, most of the decline in profits appears to be due to write-downs at financial firms and the Q4 dive in commodity prices. In other words, it's not new information to investors. More recent data suggest an earlier end to the recession than most economists expect. In other news this morning, new claims for unemployment insurance remained range-bound in the mid-600,000s, rising 8,000 at 652,000. Meanwhile, continuing claims increased 122,000 to 5.56 million.

4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-08	Q3-08	Q2-08	Q1-08	4-Quarter Change
<b>Real GDP</b>	-6.3%	-0.5%	2.8%	0.9%	-0.8%
<b>GDP Price Index</b>	0.5%	3.9%	1.1%	2.6%	2.0%
<b>Nominal GDP</b>	-5.8%	3.4%	4.1%	3.5%	1.2%
<b>PCE</b>	-4.3%	-3.8%	1.2%	0.9%	-1.5%
<b>Business Investment</b>	-21.7%	-1.7%	2.5%	2.4%	-5.2%
<b>Structures</b>	-9.4%	9.6%	18.4%	8.7%	6.3%
<b>Equipment and Software</b>	-28.1%	-7.5%	-5.0%	-0.5%	-11.0%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q4-08</b>	<b>Q3-08</b>	<b>Q2-08</b>	<b>Q1-08</b>	<b>4Q Avg.</b>
<b>PCE</b>	-3.0	-2.8	0.9	0.6	-1.1
<b>Business Investment</b>	-2.6	-0.2	0.3	0.3	-0.6
<b>Residential Investment</b>	-0.8	-0.6	-0.5	-1.1	-0.8
<b>Inventories</b>	-0.1	0.8	-1.5	0.0	-0.2
<b>Government</b>	0.3	1.1	0.8	0.4	0.6
<b>Net Exports</b>	-0.2	1.1	2.9	0.8	1.2

Source: Commerce Department