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# Data Watch

February 26, 2010 • 630.517.7756 • http://www.ftportfolios.com

## 4TH QUARTER GDP (PRELIM)

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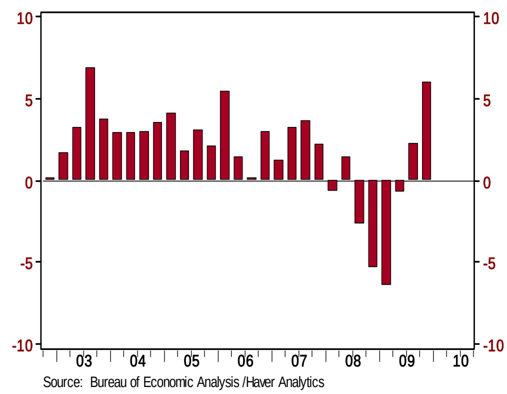
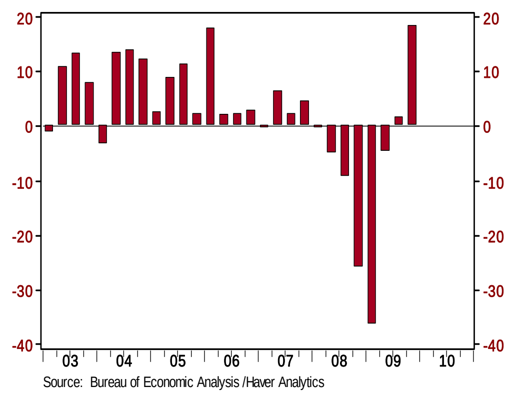
- Real GDP was revised up to a 5.9% annual growth rate in Q4, from an original estimate and consensus expected 5.7%.
- The upward revision was due to inventories and business investment in equipment/software. Meanwhile, personal consumption, government spending, and international trade were revised downward.
- The largest positive contributions to the real GDP growth rate in Q4 were inventories, personal consumption, and equipment/software. The weakest components were commercial construction and government spending.
- The GDP price index was revised to a 0.4% annual rate of change from a prior estimate of 0.6%. Nominal GDP growth – real GDP plus inflation – was revised to a 6.3% annual rate in Q4 versus an original estimate of 6.4%.




**Implications:** Real GDP boomed in Q4 and suggests continued strong growth in 2010. Although inventories accounted for most of the economic growth in Q4, this was because inventories declined by less than they did in the third quarter. There was no actual increase in goods on the shelf. With inventory-to-sales ratios near record lows and final sales (GDP excluding inventories) up three straight quarters, inventories are poised to rise in 2010. In other words, Q4 was just the beginning of a return to normalcy on inventories, which will help generate more production, income, and profits. The expansion is being driven by a natural cyclical recovery from the panic, revisions to mark-to-market accounting (which has helped heal the financial sector), and low interest rates from the Federal Reserve. Given the unusually brutal weather this winter, Q1 real GDP is a wild card. Similar storms in early 1996 pushed real GDP growth in Q1 down to a 2.8% annual rate, but then the economy rebounded at a 7.1% rate in Q2. We could be in for another swing like that one. On the inflation front, GDP prices increased at only a 0.4% annual rate in Q4. However, prices for the things we buy (gross domestic *purchases*) increased at a 1.9% rate. Nominal GDP (real GDP growth plus inflation) is now up 0.8% versus last year and will be going up quickly in the near future. This means zero percent interest rates are too low. In other news this morning, the Chicago PMI, a measure of manufacturing in the Midwest, hit a five-year high of 62.6 in February versus 61.5 in January, bucking a consensus-expected decline.

| **4th Quarter GDP** *Seasonally Adjusted Annual Rates* | *Q4-09* | *Q3-09* | *Q2-09* | *Q1-09* | *4-Quarter Change* |
|---|---|---|---|---|---|
| ***Real GDP*** | **5.9%** | 2.2% | -0.7% | -6.4% | 0.1% |
| ***GDP Price Index*** | **0.4%** | 0.4% | 0.0% | 1.9% | 0.7% |
| ***Nominal GDP*** | **6.3%** | 2.6% | -0.8% | -4.6% | 0.8% |
| ***PCE*** | **1.7%** | 2.8% | -0.9% | 0.6% | 1.0% |
| ***Business Investment*** | **6.5%** | -5.9% | -9.6% | -39.2% | -13.8% |
| ***Structures*** | **-13.9%** | -18.4% | -17.3% | -43.6% | -24.3% |
| ***Equipment and Software*** | **18.2%** | 1.5% | -4.9% | -36.4% | -7.7% |
| ***Contributions to GDP Growth (p.pts.)*** | **Q4-09** | **Q3-09** | **Q2-09** | **Q1-09** | **4Q Avg.** |
| ***PCE*** | **1.2** | 2.0 | -0.6 | 0.4 | 0.8 |
| ***Business Investment*** | **0.6** | -0.6 | -1.0 | -5.3 | -1.6 |
| ***Residential Investment*** | **0.1** | 0.4 | -0.7 | -1.3 | -0.4 |
| ***Inventories*** | **3.9** | 0.7 | -1.4 | -2.4 | 0.2 |
| ***Government*** | **-0.2** | 0.6 | 1.3 | -0.5 | 0.3 |
| ***Net Exports*** | **0.3** | -0.8 | 1.7 | 2.6 | 0.9 |

*Source: Commerce Department*