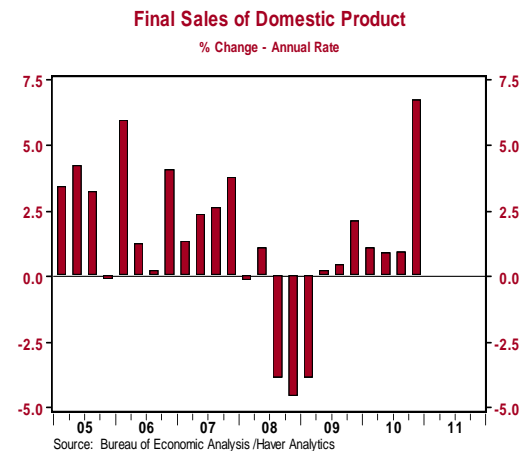
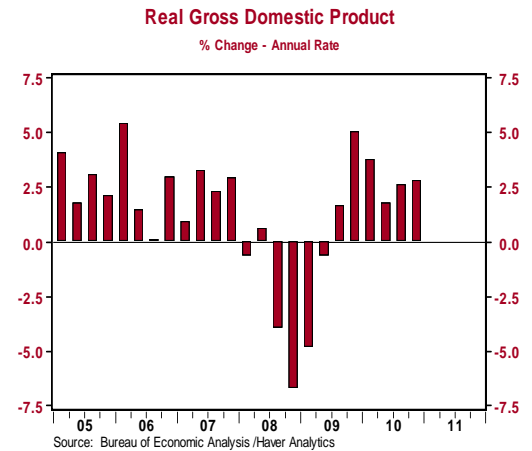


4TH QUARTER GDP (PRELIM)

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Real GDP was revised down to a 2.8% annual growth rate in Q4 from an original estimate of 3.2%. The consensus had expected 3.3%.
- The largest downward revisions were for government purchases and personal consumption. Commercial construction was revised upward.
- The largest positive contributions to the real GDP growth rate in Q4 were net exports and personal consumption. The weakest component, by far, was inventories.
- The GDP price index was revised to a 0.4% annual rate of change from a prior estimate of 0.3%. Nominal GDP growth – real GDP plus inflation – was revised to a 3.2% annual rate from a prior estimate of 3.4%.

Implications: Real GDP growth was revised down slightly for the fourth quarter, but the “mix” of GDP remains very favorable for 2011. Inventory accumulation plummeted in late 2010, as businesses were caught off guard by the strength of purchases. As a result, inventories are likely to be a positive force for GDP growth in 2011. The lower chart to the right shows the huge acceleration of final sales in the fourth quarter. Real final sales (real GDP excluding inventories) grew at a 6.7% annual rate in Q4, the fastest pace since 1998. Another positive detail in today’s report was that commercial construction increased in the fourth quarter for the first time since the first half of 2008. On the inflation front, GDP prices increased at only a 0.4% annual rate in Q4. That’s inflation for the things we *produce*. However, inflation for gross domestic purchases, the things we *buy*, was running at a 2.1% annual rate in Q4. In the past two years, nominal GDP – real GDP growth plus GDP price inflation – is up at a 2.3% annual rate. In the past year, nominal GDP is up 4.1%. With nominal GDP growing at these rates, the Federal Reserve should no longer be holding short-term interest rates near zero. Given loose monetary policy, relatively low tax rates, and the ongoing technological revolution, we anticipate that – barring a major oil supply disruption from the Middle East – real GDP growth will accelerate in 2011.



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-10	Q3-10	Q2-10	Q1-10	4-Quarter Change
Real GDP	2.8%	2.6%	1.7%	3.7%	2.7%
GDP Price Index	0.4%	2.1%	1.9%	1.0%	1.4%
Nominal GDP	3.2%	4.6%	3.7%	4.8%	4.1%
PCE	4.1%	2.4%	2.2%	1.9%	2.6%
Business Investment	5.3%	10.0%	17.2%	7.8%	10.0%
Structures	4.5%	-3.6%	-0.5%	-17.8%	-4.7%
Equipment and Software	5.5%	15.4%	24.8%	20.5%	16.3%
Contributions to GDP Growth (p.pts.)	Q4-10	Q3-10	Q2-10	Q1-10	4Q Avg.
PCE	2.9	1.7	1.5	1.3	1.9
Business Investment	0.5	0.9	1.5	0.7	0.9
Residential Investment	0.1	-0.8	0.6	-0.3	-0.1
Inventories	-3.7	1.6	0.8	2.6	0.3
Government	-0.3	0.8	0.8	-0.3	0.2
Net Exports	3.4	-1.7	-3.5	-0.3	-0.5

Source: Commerce Department