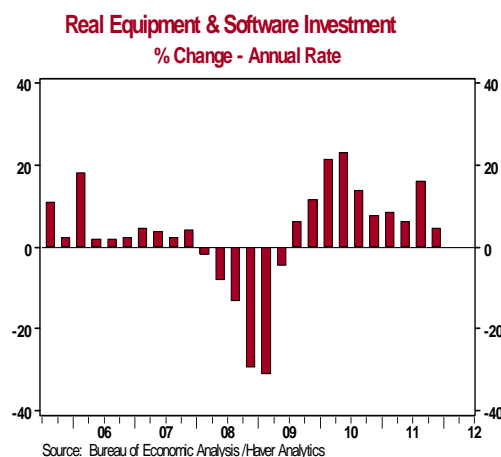
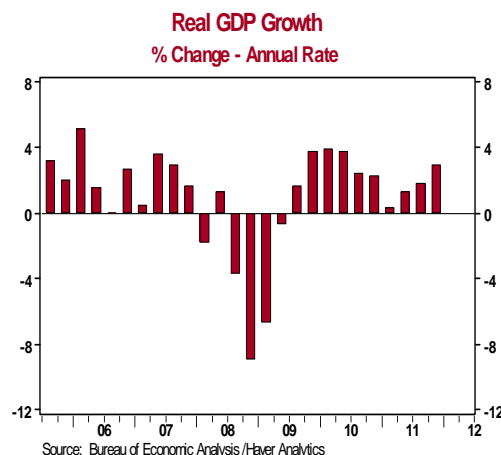


# 4<sup>th</sup> Quarter GDP (Preliminary)

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- Real GDP was revised up to a 3.0% annual growth rate in Q4 from a prior estimate of 2.8%. The consensus had expected GDP growth to remain unchanged at 2.8%.
- Commercial construction and personal consumption were revised up, while inventories were revised down slightly.
- The largest positive contributions to the real GDP growth rate in Q4 were inventories and personal consumption. By far the weakest component was government.
- The GDP price index rose at a 0.9% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 3.9% annual rate from a prior estimate of 3.2%.

**Implications:** Real GDP growth in the fourth quarter was revised up, coming in at a 3% annual rate versus a consensus expected and prior estimate of a 2.8% rate. Most major categories were only revised slightly. Commercial construction was better than first thought and so was personal consumption. There were very slight downward revisions to inventories, which means the composition of growth was also more promising for the economy going forward. The biggest drag on growth in Q4 was government purchases, driven by a wind-down of operations in Iraq and continued state and local spending cuts. Excluding government, real GDP grew at a robust 4.7% and was revised up to 2.7% for 2011. Nominal GDP (real growth plus inflation) grew at a 3.9% annual rate in Q4, up from the original estimate of 3.2%, and is up at a 3.8% rate in the past year. The Federal Reserve faces an uphill battle trying to justify another round of quantitative easing based on the growth rate of nominal GDP. Zero percent interest rates are inappropriate when nominal GDP growth is this high. The most newsworthy part of today’s report is that there was a large 1.6% upward revision to wages and salaries. Better growth in personal income is a great sign for the economy moving into the new year. In other news this morning the Chicago PMI, a measure of manufacturing in that region, increased to 64.0 in February, easily beating the consensus expectations of 61.0 and is now at the highest level since April 2011.



<b>4th Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q4-11</b>	<b>Q3-11</b>	<b>Q2-11</b>	<b>Q1-11</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>3.0%</b>	1.8%	1.3%	0.4%	1.6%
<b>GDP Price Index</b>	<b>0.9%</b>	2.6%	2.5%	2.5%	2.1%
<b>Nominal GDP</b>	<b>3.9%</b>	4.4%	4.0%	3.1%	3.8%
<b>PCE</b>	<b>2.1%</b>	1.7%	0.7%	2.1%	1.7%
<b>Business Investment</b>	<b>2.8%</b>	15.7%	10.3%	2.1%	7.6%
<b>Structures</b>	<b>-2.6%</b>	14.4%	22.6%	-14.4%	4.0%
<b>Equipment and Software</b>	<b>4.8%</b>	16.2%	6.3%	8.7%	8.9%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q4-11</b>	<b>Q3-11</b>	<b>Q2-11</b>	<b>Q1-11</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>1.5</b>	1.2	0.5	1.5	1.2
<b>Business Investment</b>	<b>0.3</b>	1.5	1.0	0.2	0.7
<b>Residential Investment</b>	<b>0.3</b>	0.0	0.1	-0.1	0.1
<b>Inventories</b>	<b>1.9</b>	-1.4	-0.3	0.3	0.1
<b>Government</b>	<b>-0.9</b>	0.0	-0.2	-1.2	-0.6
<b>Net Exports</b>	<b>-0.1</b>	0.4	0.2	-0.3	0.1

Source: Commerce Department