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4th Quarter GDP (Final)

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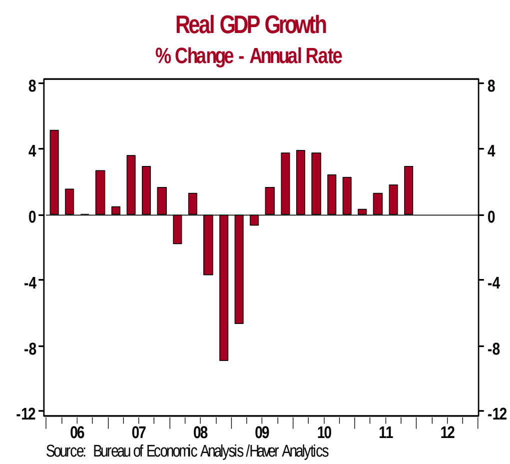
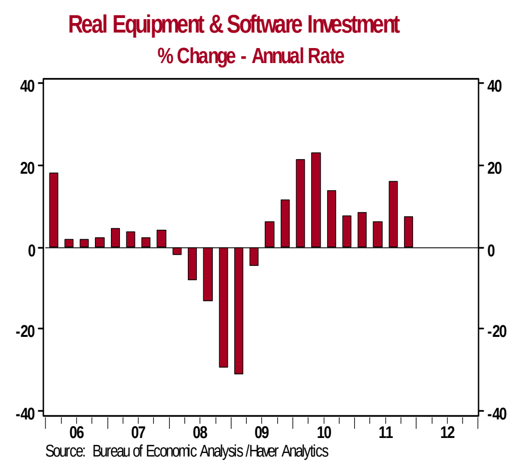
- Real GDP growth in Q4 was unrevised at a 3.0% annual rate, exactly as the consensus expected.
- Business investment was revised up, both for equipment & software and commercial construction. Net exports and inventories were revised down.
- The largest positive contributions to the real GDP growth rate in Q4 came from consumer spending and inventories. The weakest component of real GDP was government purchases.
- The GDP price index was unrevised at a 0.9% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised down slightly to a 3.8% annual rate versus a prior estimate of 3.9%. Nominal GDP is up 3.8% versus a year ago.





Implications: Real GDP growth in the fourth quarter was not revised at all from the prior estimate of a 3% annual rate. However, the mix of growth was more favorable, with business investment revised up and inventories revised down. More business investment means more productive capacity for the future; lower inventories means more room on shelves to fill in future quarters. The new information in today's report was that corporate profits increased at a 3.5% annual rate in Q4 and are up 7% from a year ago. The gain was all due to domestic activity; profits from abroad fell in Q4. Overall profits, as well as profits from domestic non-financial companies, are both at a record high. Gains in profits and worker income suggest the economy is growing faster than the GDP numbers show. What we produce adds up to GDP, which is the report most analysts focus on. But the government also calculates *gross domestic income (GDI)*, which is supposed to equal GDP. When there is a discrepancy, the government tends to later revise GDP toward GDI. Real GDI grew at a 4.3% annual rate in Q4 and was up 2.4% in the past year, easily beating real GDP of 1.6% in 2011. This suggests growth in 2011 was probably better than 1.6%. It would also help explain why the unemployment rate has been dropping faster than one would expect given modest GDP growth. Meanwhile, nominal GDP was up at a 3.8% rate in Q4 and up 3.8% in the past year, which means that a zero percent federal funds rate is too loose and quantitative easing is not needed. In other news this morning, new claims for jobless benefits declined 5,000 last week to 359,000. Continuing claims for regular state benefits fell 41,000 to 3.34 million. These figures are consistent with a gain of about 200,000 in March payrolls.

4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-11	Q3-11	Q2-11	Q1-11	4-Quarter Change
Real GDP	3.0%	1.8%	1.3%	0.4%	1.6%
GDP Price Index	0.9%	2.6%	2.5%	2.5%	2.1%
Nominal GDP	3.8%	4.4%	4.0%	3.1%	3.8%
PCE	2.1%	1.7%	0.7%	2.1%	1.6%
Business Investment	5.2%	15.7%	10.3%	2.1%	8.2%
Structures	-1.0%	14.4%	22.6%	-14.4%	4.4%
Equipment and Software	7.5%	16.2%	6.3%	8.7%	9.6%
Contributions to GDP Growth (p.pts.)	**Q4-11**	**Q3-11**	**Q2-11**	**Q1-11**	**4Q Avg.**
PCE	1.5	1.2	0.5	1.5	1.2
Business Investment	0.5	1.5	1.0	0.2	0.8
Residential Investment	0.3	0.0	0.1	-0.1	0.1
Inventories	1.8	-1.4	-0.3	0.3	0.1
Government	-0.8	0.0	-0.2	-1.2	-0.6
Net Exports	-0.3	0.4	0.2	-0.3	0.0

Source: Commerce Department