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4th Quarter GDP (Final)

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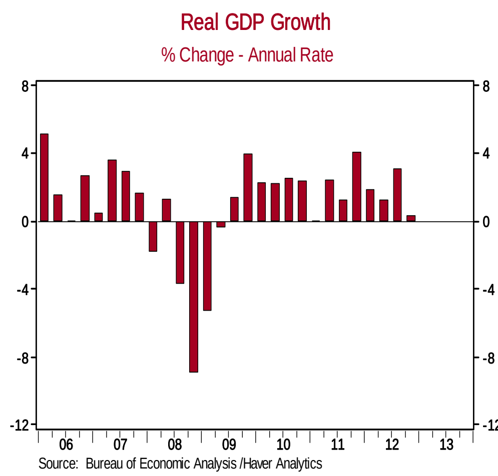
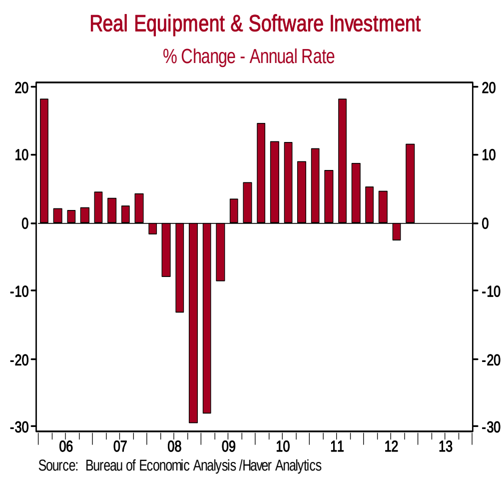
- Real GDP growth in Q4 was revised up to a 0.4% annual rate versus a prior estimate of 0.1%. The consensus had expected 0.5%.
- The largest positive revision was for business investment in structures (commercial construction). Net exports also were revised slightly higher while consumer spending was revised lower.
- The largest positive contributions to the real GDP growth rate in Q4 came from consumer spending and business investment in equipment & software. The weakest components of real GDP were inventories and government purchases.
- The GDP price index was revised higher to a 1.0% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 1.4% annual rate versus a prior estimate of 1.0%. Nominal GDP is up 3.5% versus a year ago.

Implications: The plow horse economy is still intact. Real GDP growth for Q4 was revised up to a 0.4% annual rate from a prior estimate of 0.1%, so no big change to the top line number. Underneath the headline, commercial construction was revised up while consumer spending was revised down. Meanwhile, today we have our first look at Q4 corporate profits. Corporate profits hit a new all-time record high, driven higher due to domestic non-financials and the rest of the world. Profits were up at a 9.5% annual rate in Q4 and up 3.1% from a year ago. Nominal GDP (real growth plus inflation) is up 3.5% from a year ago and up at a 3.8% annual rate in the past 2 years. For comparison, the average annual growth for nominal GDP is 4% in the past 10 years. In other words, the Federal Reserve is committed to keeping interest rates near zero and vastly expanding its balance sheet at the same time that nominal GDP growth appears quite normal. This can't be sustained without generating higher inflation in the next several years. Looking at the data that we have gotten so far for Q1 it looks like the economy has picked up a little steam and real GDP grew at a roughly 2.5% annual rate. In other news this morning, new claims for jobless benefits increased 16,000 last week to 357,000. Continuing claims for regular state benefits declined 27,000 to 3.05 million. These figures plus other economic data suggest non-farm payroll gains of about 175,000 in March, 185,000 private. (These forecasts will change next week as we keep getting other signals on the labor market.) For manufacturing, the Chicago PMI, a measure of activity in that region, declined to 52.4 for March from 56.8 in February, coming in well below the consensus expected dip to 56.5. As a result, we expect the national ISM index to slip slightly for March after the large increase in February.





4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-12	Q3-12	Q2-12	Q1-12	4-Quarter Change
Real GDP	**0.4%**	3.1%	1.3%	2.0%	1.7%
GDP Price Index	**1.0%**	2.7%	1.6%	2.0%	1.8%
Nominal GDP	**1.4%**	5.9%	2.8%	4.2%	3.5%
PCE	**1.8%**	1.6%	1.5%	2.4%	1.8%
Business Investment	**13.1%**	-1.8%	3.6%	7.5%	5.5%
Structures	**16.7%**	0.0%	0.6%	12.8%	7.3%
Equipment and Software	**11.8%**	-2.6%	4.8%	5.4%	4.7%
Contributions to GDP Growth (p.pts.)	**Q4-12**	**Q3-12**	**Q2-12**	**Q1-12**	**4Q Avg.**
PCE	**1.3**	1.1	1.1	1.7	1.3
Business Investment	**1.3**	-0.2	0.4	0.7	0.5
Residential Investment	**0.4**	0.3	0.2	0.4	0.3
Inventories	**-1.5**	0.7	-0.5	-0.4	-0.4
Government	**-1.4**	0.8	-0.1	-0.6	-0.4
Net Exports	**0.3**	0.4	0.2	0.1	0.3

Source: Commerce Department