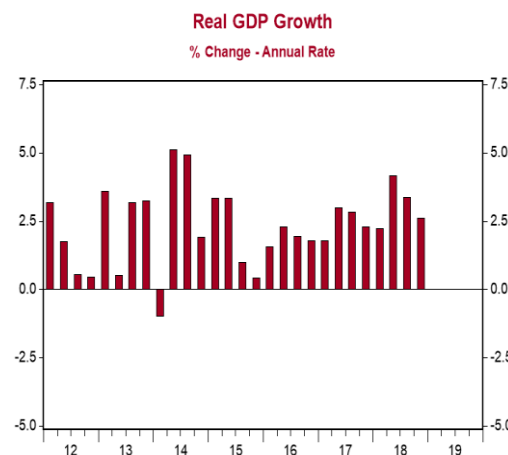


## 4<sup>th</sup> Quarter GDP (Initial)

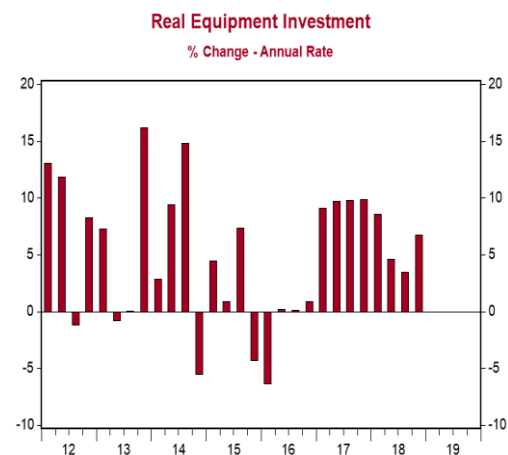
**Brian S. Wesbury** – Chief Economist  
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**Strider Elass** – Economist

- Real GDP grew at a 2.6% annual rate in Q4, beating the consensus expected 2.2%.
- The largest positive contribution to the real GDP growth rate in Q4 was personal consumption. The weakest components were net exports and home building.
- Personal consumption, business investment, and home building, combined, grew at a 3.1% annual rate in Q4 and are up 3.1% in the past year.
- The GDP price index increased at a 1.8% annual rate in Q4. Nominal GDP (real GDP plus inflation) rose at a 4.6% annual rate in Q4, is up 5.3% from a year ago, and up at a 4.9% annual rate from two years ago.

**Implications:** Real GDP grew at a 2.6% annual rate in the fourth quarter, beating consensus expectations. If this holds then real GDP was up 3.1% in the fourth quarter compared to a year ago, the fastest growth rate for any year since 2005. Consumer spending grew at a 2.8% annual rate in Q4, but the growth in business investment deserves the most attention. Investment in equipment, structures, and intellectual property grew at a 6.2% annual rate in Q4 and was up 7.2% in 2018, the fastest pace since 2011. The pick-up in business investment this deep into an economic expansion supports the case that the corporate tax cut enacted at the end of 2017 is helping boost investment, which should lead to faster productivity growth in the years ahead. We like to follow “core” real GDP, which excludes inventories, international trade, and government purchases, none of which can be counted on for long-term economic growth. Core real GDP grew at 3.1% annual pace in Q4 and is also up 3.1% in the past year. In terms of the monetary policy, today’s report shows that the Federal Reserve is not tight. Nominal GDP – real GDP growth plus inflation – grew at a 4.6% annual rate in Q4 and in the past year is up 5.3%, the fastest pace since 2006. We think long-term yields will eventually rise to reflect solid economic fundamentals, giving the Fed the room on the yield curve it thinks it needs to raise rates later this year. At present, the futures market suggests only a 2.4% chance the federal funds rate will be higher at the end of the year; we think these odds should be significantly higher. In other news this morning, new claims for unemployment benefits increased 8,000 last week to 225,000. Continuing claims rose 79,000 to 1.805 million. These figures are consistent with continued solid payroll growth in February, although at a slower pace than the 304,000 gain in January. On the housing front, pending home sales, which are contracts on existing homes, increased 4.6% in January after declining 2.3% in December. These figures suggest a rebound in closings on existing homes in February. Finally, the Chicago PMI, a measure of Midwest manufacturing sentiment, rose to 64.7 in February from 56.7 in January. Putting this report in our models suggests the national ISM Manufacturing index should come in at around a solid 56.0 for February.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-18	Q3-18	Q2-18	Q1-18	4-Quarter Change
<b>Real GDP</b>	2.6%	3.4%	4.2%	2.2%	3.1%
<b>GDP Price Index</b>	1.8%	1.8%	3.0%	2.0%	2.2%
<b>Nominal GDP</b>	4.6%	4.9%	7.6%	4.3%	5.3%
<b>PCE</b>	2.8%	3.5%	3.8%	0.5%	2.7%
<b>Business Investment</b>	6.2%	2.5%	8.7%	11.5%	7.2%
<b>Structures</b>	-4.2%	-3.4%	14.5%	13.9%	4.8%
<b>Equipment</b>	6.7%	3.4%	4.6%	8.5%	5.8%
<b>Intellectual Property</b>	13.1%	5.6%	10.5%	14.1%	10.8%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q4-18</b>	<b>Q3-18</b>	<b>Q2-18</b>	<b>Q1-18</b>	<b>4Q Avg.</b>
<b>PCE</b>	1.9	2.4	2.6	0.4	1.8
<b>Business Investment</b>	0.8	0.4	1.2	1.5	0.9
<b>Residential Investment</b>	-0.1	-0.1	-0.1	-0.1	-0.1
<b>Inventories</b>	0.1	2.3	-1.2	0.3	0.4
<b>Government</b>	0.1	0.4	0.4	0.3	0.3
<b>Net Exports</b>	-0.2	-2.0	1.2	0.0	-0.3