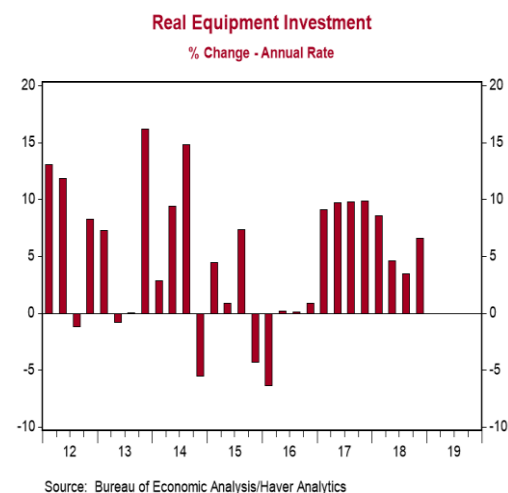
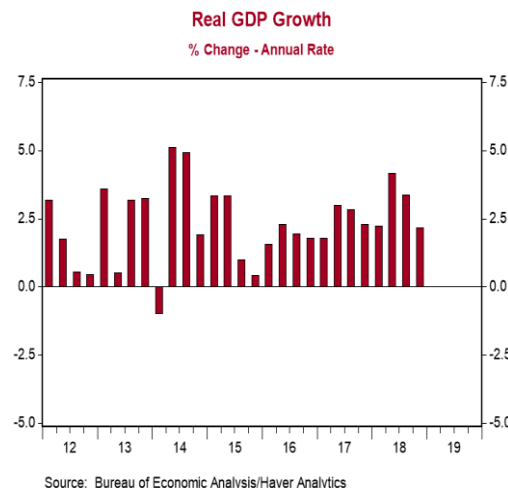


4th Quarter GDP (Final)

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- Real GDP growth in Q4 was revised to a 2.2% annual rate from a prior estimate of 2.6%, narrowly missing the consensus expected 2.3%.
- The downward revision was due to personal consumption and government purchases. Net exports were revised up.
- The largest positive contributions to the real GDP growth rate in Q4 came from consumer spending and business investment. The weakest component was home building.
- The GDP price index was revised down to a 1.7% annualized rate of change from a prior estimate of 1.8%. Nominal GDP growth – real GDP plus inflation – was revised down to a 4.1% annual rate versus a prior estimate of 4.6%. Nominal GDP is up 5.2% versus a year ago and up at a 4.9% annual rate in the past two years.

Implications: Real GDP grew at a 2.2% annual rate in the fourth quarter, a downward revision from the prior estimate of 2.6%. There were no major changes to any particular component of GDP, but downward revisions to consumer spending and government purchases outweighed an upward revision to net exports. Still, real GDP grew 3.0% in 2018, the fastest growth for any calendar year since 2005, boosted by the shift to lower tax rates and less regulation. Meanwhile, nominal GDP – real GDP growth plus inflation – grew at a 4.1% annual rate in Q4. That’s a downward revision from the prior estimate of 4.6%. However, nominal GDP was still up 5.2% in 2018 and is up at a 4.9% annual rate in the past two years, signaling that monetary policy is not tight. Today we also got our first look at economy-wide Q4 corporate profits, which were down 0.4% compared to the third quarter but are up 7.4% from a year ago. All the decline in Q4 was due to profits at domestic financial companies; profits increased at domestic nonfinancial firms, as well as from the rest of the world. Meanwhile, after-tax profits are up 14.3% from a year ago. Although some analysts are saying profits have peaked, we think the story of 2019-20 will be that profit *growth* may have peaked in 2018, but the *level* of profits will continue to trend higher. Our capitalized profits model suggests US equities remain cheap, not only at today’s interest rates but even using a 10-year Treasury yield of 3.5%. In other news this morning, new claims for unemployment insurance declined 5,000 last week to 211,000. Continuing claims rose 13,000 to 1.756 million. These claims figures are both at very low levels, suggesting a rebound in payroll growth in March. On the housing front, pending home sales, which are contracts on existing homes, declined 1.0% in February after a 4.3% surge in January. These reports suggest March existing home sales, which are counted at closing will come in at around a 5.27 million annual rate, about the average of the past year.



4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-18	Q3-18	Q2-18	Q1-18	4-Quarter Change
Real GDP	2.2%	3.4%	4.2%	2.2%	3.0%
GDP Price Index	1.7%	1.8%	3.0%	2.0%	2.1%
Nominal GDP	4.1%	4.9%	7.6%	4.3%	5.2%
PCE	2.5%	3.5%	3.8%	0.5%	2.6%
Business Investment	5.4%	2.5%	8.7%	11.5%	7.0%
Structures	-3.9%	-3.4%	14.5%	13.9%	4.9%
Equipment	6.6%	3.4%	4.6%	8.5%	5.8%
Intellectual Property	10.7%	5.6%	10.5%	14.1%	10.2%
Contributions to GDP Growth (p.pts.)	Q4-18	Q3-18	Q2-18	Q1-18	4Q Avg.
PCE	1.7	2.4	2.6	0.4	1.7
Business Investment	0.7	0.4	1.2	1.5	0.9
Residential Investment	-0.2	-0.1	-0.1	-0.1	-0.1
Inventories	0.1	2.3	-1.2	0.3	0.4
Government	-0.1	0.4	0.4	0.3	0.3
Net Exports	-0.1	-2.0	1.2	0.0	-0.2

Source: Bureau of Economic Analysis