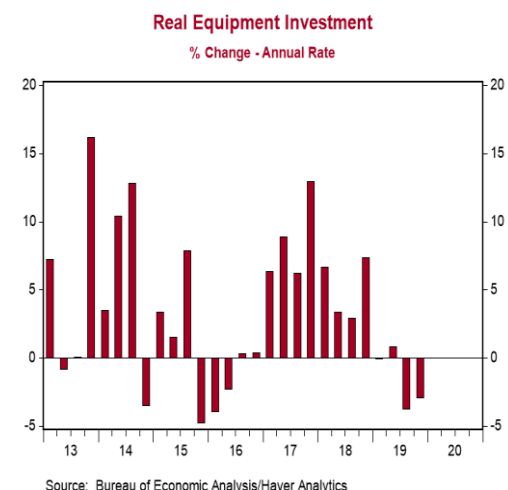
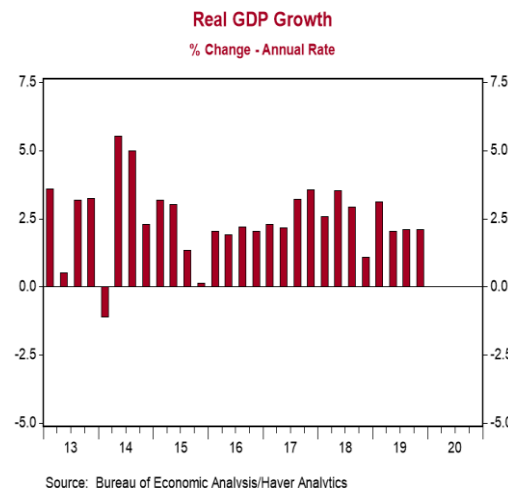


## 4<sup>th</sup> Quarter GDP (Initial)

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- Real GDP grew at a 2.1% annual rate in Q4, narrowly beating the consensus expected 2.0%.
- The largest positive contributions to the real GDP growth rate in Q4 were net exports and personal consumption. The weakest component was inventories.
- Personal consumption, business investment, and home building, combined, grew at a 1.4% annual rate in Q4 and are up 2.2% in the past year.
- The GDP price index increased at a 1.4% annual rate in Q4. Nominal GDP (real GDP plus inflation) rose at a 3.6% annual rate in Q4, is up 4.0% from a year ago, and up at a 4.5% annual rate from two years ago.

**Implications:** Real GDP grew at a 2.1% annual rate in the fourth quarter, narrowly beating consensus expectations. As a result, real GDP grew 2.3% in 2019 (Q4/Q4). However, today's report provided a strong hint that real GDP will grow at a faster rate in 2020. In particular, inventories grew at only a \$6.5 billion annual rate in the fourth quarter, which is an unusually slow pace given the trend in the US economy. A replenishment of shelves and showrooms should boost production in 2020. The most disappointing news in today's report were the declines in business investment in equipment (down at a 2.9% annual rate) as well as commercial construction (-10.1% annualized). But the negative direction for these parts of GDP seem unlikely to last. Corporate profits are high and the labor market is tight, which should lead companies to invest more in pursuit of greater efficiency. Personal consumption increased at a 1.8% annual rate in Q4, which was a slower pace than around mid-year, but we also expect a rebound in this part of GDP growth in 2020, given wage growth and low overall debt-service relative to income. Some might see 2.1% real GDP growth as a sign that the Federal Reserve should ease monetary policy further and maybe even cut interest rates, again! But nominal GDP – real GDP growth plus inflation – grew at a 3.6% annual rate in Q4, is up 4.0% versus a year ago, and up at a 4.5% annual rate in the past two years, both well above short-term rates and signaling that monetary policy is not an obstacle to economic growth. Yes, GDP prices were up at only a 1.4% rate in Q4, but they were up 1.7% for all of 2019, making the Fed's 2.0% goal within reach in 2020. Moreover, both Europe and Japan are growing slower than the US, proving negative interest rates don't work. In other news this morning, new claims for unemployment benefits declined 7,000 last week to 216,000. Continuing claims fell 44,000 to 1.703 million. These figures are consistent with continued solid payroll growth in January. On the housing front, pending home sales, which are contracts on existing homes, declined 4.9% in December after rising 1.2% in November. These figures suggest a drop in closings on existing homes in January after the surge in December.



<b>4th Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q4-19</b>	<b>Q3-19</b>	<b>Q2-19</b>	<b>Q1-19</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>2.1%</b>	2.1%	2.0%	3.1%	<b>2.3%</b>
<b>GDP Price Index</b>	<b>1.4%</b>	1.8%	2.4%	1.1%	<b>1.7%</b>
<b>Nominal GDP</b>	<b>3.6%</b>	3.8%	4.7%	3.9%	<b>4.0%</b>
<b>PCE</b>	<b>1.8%</b>	3.1%	4.6%	1.1%	<b>2.6%</b>
<b>Business Investment</b>	<b>-1.5%</b>	-2.3%	-1.0%	4.4%	<b>-0.1%</b>
<b>Structures</b>	<b>-10.1%</b>	-9.9%	-11.1%	4.0%	<b>-7.0%</b>
<b>Equipment</b>	<b>-2.9%</b>	-3.8%	0.8%	-0.1%	<b>-1.5%</b>
<b>Intellectual Property</b>	<b>5.9%</b>	4.6%	3.6%	10.9%	<b>6.2%</b>
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q4-19</b>	<b>Q3-19</b>	<b>Q2-19</b>	<b>Q1-19</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>1.2</b>	2.1	3.0	0.8	<b>1.8</b>
<b>Business Investment</b>	<b>-0.2</b>	-0.3	-0.1	0.6	<b>0.0</b>
<b>Residential Investment</b>	<b>0.2</b>	0.2	-0.1	0.0	<b>0.1</b>
<b>Inventories</b>	<b>-1.1</b>	0.0	-0.9	0.5	<b>-0.4</b>
<b>Government</b>	<b>0.5</b>	0.3	0.8	0.5	<b>0.5</b>
<b>Net Exports</b>	<b>1.5</b>	-0.1	-0.7	0.7	<b>0.3</b>