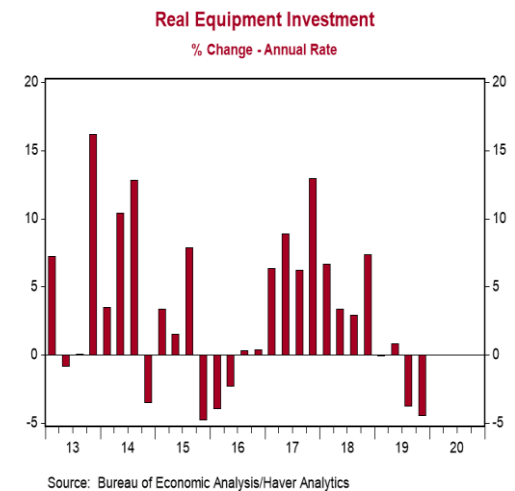
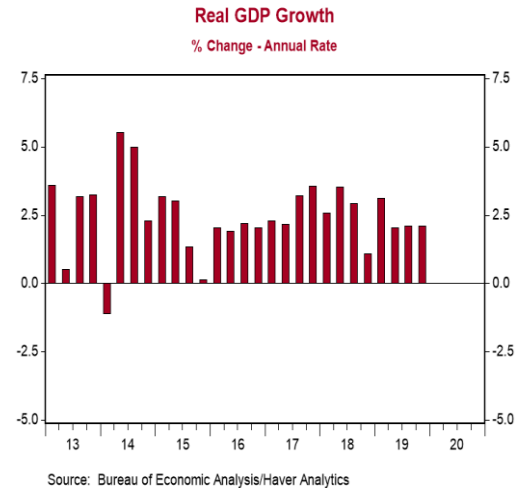


4th Quarter GDP (Preliminary)

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- Real GDP growth in Q4 was unrevised, coming in at a 2.1% annual rate, matching consensus expectations.
- Upward revisions to inventories and net exports were offset by downward revision to business investment and consumption.
- The largest positive contribution to the real GDP growth rate in Q4 was net exports. The weakest component, by far, was inventories.
- The GDP price index was revised down slightly to a 1.3% annual growth rate from a prior estimate of 1.4%. Nominal GDP growth – real GDP plus inflation – was revised down to a 3.5% annual rate from a prior estimate of 3.6%.

Implications: Not much “new” news on GDP. The second reading for real GDP growth showed the same moderate 2.1% annualized pace of growth that was estimated last month, but the mix of revisions versus the previous estimate were slightly less positive. Business investment was revised lower, led by equipment and software, along with consumption, led by non-durable goods. Meanwhile revisions to inventories and net exports were revised higher. “Core” real GDP, which strips out inventories, net exports, and government purchases, rose at a tepid 1.3% annual rate in the fourth quarter and is up at a 2.5% annualized rate in the past two years. Today’s reading on growth, an unemployment rate at 3.6%, and inflation readings hovering around 2% all show no need for more rate cuts. Nominal GDP growth – real GDP growth plus inflation – is up 4.0% from a year ago, and up 4.4% annualized in the past two years, much too high for short-term interest rates well below 2.0%, even with Coronavirus fears. Currently the market is expecting three rate cuts this year, the first one coming in March. Further cuts would be a mistake. We expect real GDP to grow at a 2%+ rate in 2020 with slower growth in the first half relative to the second. The tax cuts enacted in late 2018 and the deregulation coming from Washington, DC will continue to support the US economy.



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-19	Q3-19	Q2-19	Q1-19	4-Quarter Change
Real GDP	2.1%	2.1%	2.0%	3.1%	2.3%
GDP Price Index	1.4%	1.8%	2.4%	1.1%	1.7%
Nominal GDP	3.5%	3.8%	4.7%	3.9%	4.0%
PCE	1.7%	3.1%	4.6%	1.1%	2.6%
Business Investment	-2.3%	-2.3%	-1.0%	4.4%	-0.3%
Structures	-8.1%	-9.9%	-11.1%	4.0%	-6.5%
Equipment	-4.4%	-3.8%	0.8%	-0.1%	-1.9%
Intellectual Property	4.0%	4.6%	3.6%	10.9%	5.7%
Contributions to GDP Growth (p.pts.)	Q4-19	Q3-19	Q2-19	Q1-19	4Q Avg.
PCE	1.2	2.1	3.0	0.8	1.8
Business Investment	-0.3	-0.3	-0.1	0.6	0.0
Residential Investment	0.2	0.2	-0.1	0.0	0.1
Inventories	-1.0	0.0	-0.9	0.5	-0.3
Government	0.5	0.3	0.8	0.5	0.5
Net Exports	1.5	-0.1	-0.7	0.7	0.4

Source: Bureau of Economic Analysis