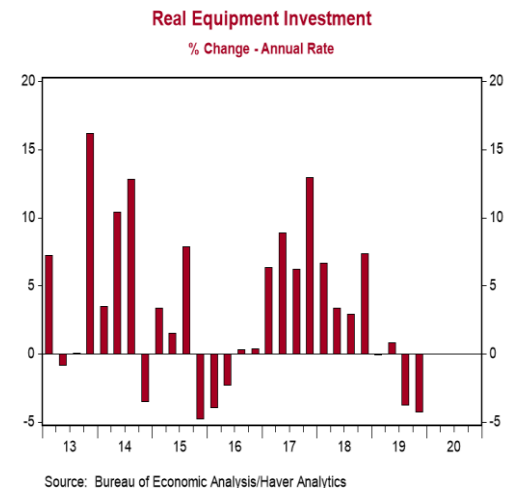
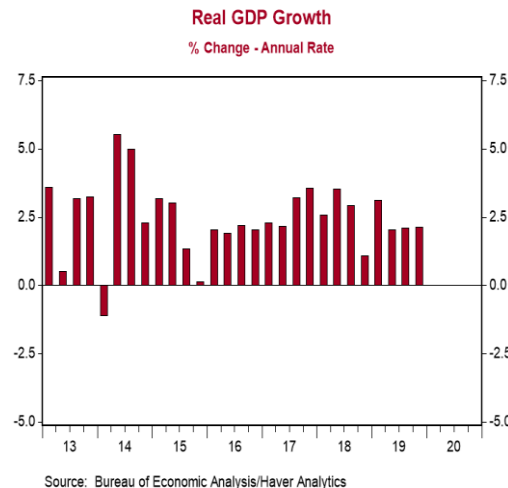


4th Quarter GDP (Final)

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- Real GDP growth in Q4 was unrevised, coming in at a 2.1% annual rate, matching consensus expectations.
- Upward revisions to consumption and residential investment were offset by downward revisions to government purchases, net exports, and business investment.
- The largest positive contributions to the real GDP growth rate in Q4 came from net exports and consumer spending. The weakest component was inventories.
- The GDP price index was unrevised at a 1.3% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was unrevised as well, coming in at a 3.5% annual rate. Nominal GDP is up 4.0% versus a year ago and up at a 4.4% annual rate in the past two years.

Implications: Forget about GDP for a minute. Initial claims for unemployment benefits rose 3.001 million last week to 3.283 million, by far the largest increase and the highest level ever for weekly claims. The previous record high for claims was 695,000, back in October 1982; the highest level during the Great Recession of 2008-09 was 665,000. Continuing claims for the week prior increased 101,000 to 1.803 million, but will also show a huge spike upward in next week’s report. These figures are the first wave of the massive layoffs resulting from government-mandated shutdowns of business. Look for continued stratospheric levels for claims for at least the next couple of weeks as small business continues to grapple with mandated shutdowns. The February employment report had the unemployment rate at 3.5%; look for that rate to move substantially higher in the next few months. Now back to GDP, where there was not much news. The third reading for fourth quarter real GDP growth showed the same moderate 2.1% annualized pace of growth that was estimated a month ago. Real GDP was up 2.3% versus a year ago. “Core” real GDP, which strips out inventories, net exports, and government purchases, rose at a tepid 1.4% annual rate in the fourth quarter but was up at a 2.5% annualized rate in the past two years. Today we also got our first look at economy-wide Q4 corporate profits, which grew 2.6% compared to the third quarter and are up 2.2% from a year ago. Most of the gain in Q4 was due to profits at domestic non-financial companies; profits increased slightly at domestic financial firms but were down slightly from the rest of the world. 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 3.0%. From a long-term perspective, the recent selloff in equities due to the coronavirus is a buying opportunity. That said, the next few quarters are going to get ugly. Currently we are forecasting that real GDP will decline at a 1.5% annual rate in the first quarter and at a 20% rate in Q2, the steepest drop in output since the end of World War II. However, we also expect a rebound in real GDP starting in the third quarter. The market is forward-looking and will turn well before the economy bottoms.



| 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 | 1.3% | 1.8% | 2.4% | 1.1% | 1.6% |
| Nominal GDP | 3.5% | 3.8% | 4.7% | 3.9% | 4.0% |
| PCE | 1.8% | 3.1% | 4.6% | 1.1% | 2.7% |
| Business Investment | -2.5% | -2.3% | -1.0% | 4.4% | -0.4% |
| Structures | -7.3% | -9.9% | -11.1% | 4.0% | -6.2% |
| Equipment | -4.2% | -3.8% | 0.8% | -0.1% | -1.8% |
| Intellectual Property | 2.8% | 4.6% | 3.6% | 10.9% | 5.4% |
| 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 | 0.4 | 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