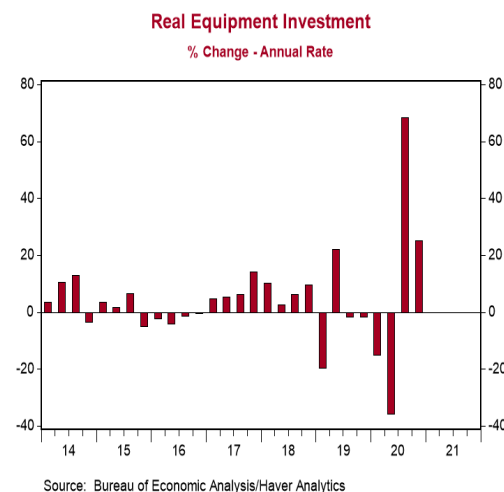
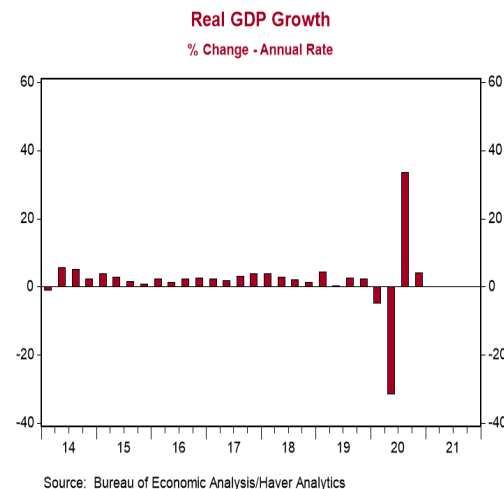


# 4<sup>th</sup> Quarter GDP (Initial)

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- Real GDP grew at a 4.0% annual rate in Q4, very close to the consensus expected 4.2%.
- The largest positive contributions to the real GDP growth rate in Q4 were personal consumption, residential investment, and business fixed investment. The weakest component was net exports.
- Personal consumption, business investment, and home building, combined, grew at a 5.6% annual rate in Q4 but are down 1.7% in the past year.
- The GDP price index increased at a 2.0% annual rate in Q4 and is up 1.3% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 6.0% annual rate in Q4 but is down 1.2% from a year ago.

**Implications:** Real GDP grew at a 4.0% annual rate in the fourth quarter, very close to the consensus expected 4.2% rate. That 4.0% growth rate likely represents growth that was much faster than 4.0% at the beginning of the fourth quarter but much slower growth at the end of the quarter as COVID-19 cases increased again around the country, illness-related lockdowns intensified, and the economic “sugar high” from the previous episode of government “stimulus” weakened, prior to a new stimulus enacted just as the fourth quarter was running out. The largest contributions to growth in the fourth quarter were from consumer spending, business investment, and home building. Combined, we think about these components as “core” GDP and they were up at a robust 5.6% annual rate for the quarter. The weakest component of GDP in Q4 was net exports, which was a reflection of a faster recovery in the US than in other advanced economies around the world. Given the slowdown in growth in the latter part of the fourth quarter, we are looking for somewhat slower quarterly real GDP growth in the first quarter of 2021. However, given the roll-out of the vaccine, the stimulus enacted late last year, and businesses’ ability to adapt under adversity, we anticipate much faster growth in the second quarter of the year and real GDP growth of 4.0% (Q4/Q4) for 2021 versus -2.5% for 2020. Four percent growth in 2021 would be the fastest pace for any calendar year since 2003, but the economy would still be smaller at year-end than it would have been in the absence of COVID-19. As a result, even with faster growth, the Federal Reserve is likely to use the underperformance of the economy versus a pre-COVID-19 baseline to justify continuing to keep short-term interest rates near zero. In other news this morning, new claims for unemployment benefits declined 67,000 last week to 847,000. Continuing claims fell 203,000 to 4.771 million. These figures are consistent with a modest rebound in payrolls in January, and we still expect much faster job growth starting by the Spring.



<b>4th Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q4-20</b>	<b>Q3-20</b>	<b>Q2-20</b>	<b>Q1-20</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>4.0%</b>	33.4%	-31.4%	-5.0%	-2.5%
<b>GDP Price Index</b>	<b>2.0%</b>	3.5%	-1.8%	1.4%	1.3%
<b>Nominal GDP</b>	<b>6.0%</b>	38.4%	-32.8%	-3.4%	-1.2%
<b>PCE</b>	<b>2.5%</b>	41.0%	-33.2%	-6.9%	-2.6%
<b>Business Investment</b>	<b>13.8%</b>	22.9%	-27.2%	-6.7%	-1.3%
<b>Structures</b>	<b>3.0%</b>	-17.4%	-33.6%	-3.7%	-14.1%
<b>Equipment</b>	<b>24.9%</b>	68.2%	-35.9%	-15.2%	3.4%
<b>Intellectual Property</b>	<b>7.5%</b>	8.4%	-11.4%	2.4%	1.4%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q4-20</b>	<b>Q3-20</b>	<b>Q2-20</b>	<b>Q1-20</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>1.7</b>	25.4	-24.0	-4.8	-0.4
<b>Business Investment</b>	<b>1.7</b>	3.2	-3.7	-0.9	0.1
<b>Residential Investment</b>	<b>1.3</b>	2.2	-1.6	0.7	0.6
<b>Inventories</b>	<b>1.0</b>	6.6	-3.5	-1.3	0.7
<b>Government</b>	<b>-0.2</b>	-0.8	0.8	0.2	0.0
<b>Net Exports</b>	<b>-1.5</b>	-3.2	0.6	1.1	-0.7

Source: Bureau of Economic Analysis