

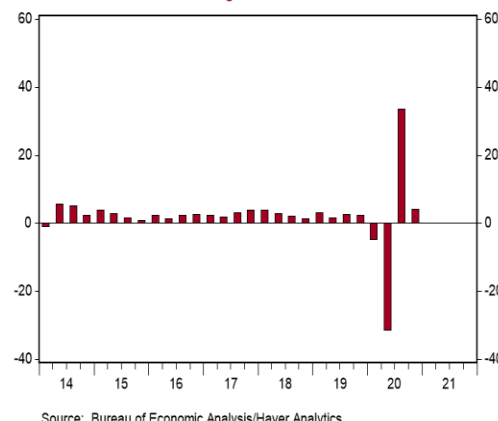
4th Quarter GDP (Preliminary)

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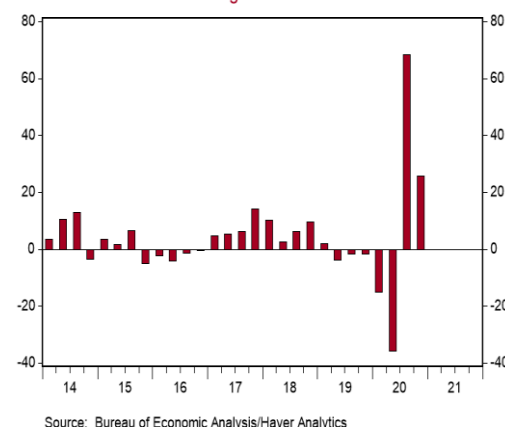
- Real GDP growth in Q4 was revised up to a 4.1% annual rate from a prior estimate of 4.0%, narrowly missing the consensus expected revision to 4.2%.
- Upward revisions to home building and inventories were slightly larger than a downward revision to consumer spending.
- The largest positive contributions to the real GDP growth rate in Q4 were consumer spending, home building, business investment in equipment, and inventories. The weakest component, by far, was net exports.
- The GDP price index was revised up slightly to a 2.1% annual growth rate from a prior estimate of 2.0%. Nominal GDP growth – real GDP plus inflation – was revised up to a 6.1% annual rate from a prior estimate of 6.0%.

Implications: Today’s report on real GDP growth in the fourth quarter was pretty much a non-event, with only very slight revisions to all major categories of growth, totaling up to a tiny upward revision overall, to a 4.1% annualized growth rate. That narrowly misses the consensus expected 4.2%, but no sane investor should alter their plans based on a 0.1 percentage point miss on a growth-rate expectation for a quarter that ended two months ago. Next month’s GDP report for Q4 will be more important because it will include figures on economy-wide corporate profits that help us assess fair value on the stock market. In the meantime, we are watching what incoming reports suggest about real GDP growth in the first quarter of 2021. Right now we’re projecting growth at a 6.0% annual rate for Q1, spurred by the roll-out of vaccines, the loosening of COVID-related restrictions, and the stimulus bill passed in late December. The best news in today’s report on the fourth quarter was the increase in business investment, which should help spur productivity growth over time, which will help raise living standards. Non-residential fixed investment (business investment in equipment, commercial construction, and intellectual property) rose at a 14.0% annual rate in Q4, finishing the year down only 1.2% from the end of 2019. Look for this investment to hit a new all-time high in early 2021.

Real GDP Growth
% Change - Annual Rate



Real Equipment Investment
% Change - Annual Rate



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-20	Q3-20	Q2-20	Q1-20	4-Quarter Change
Real GDP	4.1%	33.4%	-31.4%	-5.0%	-2.4%
GDP Price Index	2.1%	3.5%	-1.8%	1.4%	1.3%
Nominal GDP	6.1%	38.4%	-32.8%	-3.4%	-1.2%
PCE	2.4%	41.0%	-33.2%	-6.9%	-2.6%
Business Investment	14.0%	22.9%	-27.2%	-6.7%	-1.2%
Structures	1.1%	-17.4%	-33.6%	-3.7%	-14.5%
Equipment	25.7%	68.2%	-35.9%	-15.2%	3.5%
Intellectual Property	8.4%	8.4%	-11.4%	2.4%	1.6%
Contributions to GDP Growth (p.pts.)	Q4-20	Q3-20	Q2-20	Q1-20	4Q Avg.
PCE	1.6	25.4	-24.0	-4.8	-0.4
Business Investment	1.8	3.2	-3.7	-0.9	0.1
Residential Investment	1.4	2.2	-1.6	0.7	0.7
Inventories	1.1	6.6	-3.5	-1.3	0.7
Government	-0.2	-0.8	0.8	0.2	0.0
Net Exports	-1.6	-3.2	0.6	1.1	-0.8

Source: Bureau of Economic Analysis