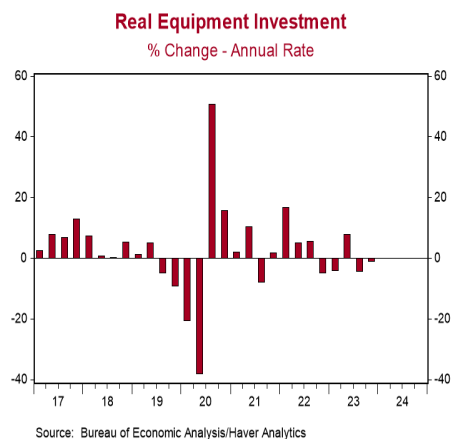


4th Quarter GDP (Final)

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- Real GDP growth in Q4 was revised higher to a 3.4% annual rate, from a prior estimate of and consensus expected 3.2%.
- Upward revisions to consumer spending, business investment and government purchases more than offset downward revisions to inventories and net exports.
- The largest positive contributions to the real GDP growth rate in Q4 were consumer spending and government purchases. The weakest component was inventories.
- The GDP price index was unrevised at a 1.6% annual growth rate. Nominal GDP growth – real GDP plus inflation – was revised higher to a 5.1% annualized rate from a prior estimate of 4.9%.

Implications: Hold off on GDP itself for a moment. The most important part of this morning’s report was on economy-wide corporate profits, which rose 4.1% in the fourth quarter vs. the third quarter and are up 5.1% from a year ago. Profits from domestic industries rose 5.2%, while profits from the rest of the world fell 1.7%. Domestic non-financial industries rose 5.9% and domestic financial industry profits increased 1.3%. Financial industry data include the Federal Reserve (either profits, or losses). Because the Fed now pays private banks interest on reserves, and has raised interest rates, it has been generating unprecedented losses in recent quarters. Excluding the losses at the Fed (because we want to accurately count profits at the private sector level), overall corporate profits were up 2.8% in the fourth quarter and 6.7% from a year ago. Plugging in non-Fed profits into our Capitalized Profits Model suggests stocks remain overvalued. Today’s final report on fourth quarter real GDP was revised higher to a 3.4% annual rate versus an estimate of 3.2% made a month ago. The higher overall number can be attributed to upward revisions to consumer spending on services, along with commercial construction, and government purchases, which more than offset downward revisions to inventories and net exports. Meanwhile, nominal GDP (real GDP growth plus inflation) rose at a 5.1% annual rate in Q4 and is up 5.9% from a year ago. In addition to corporate profits, we also got a Q4 total for Real Gross Domestic Income, an alternative to GDP that is just as accurate. Real GDI rose at a 4.8% annual rate in Q4 and is up 1.9% versus a year ago. This is slower than the 3.1% increase in Real GDP. In other news this morning, initial unemployment claims declined 2,000 last week to 210,000, while continuing claims increased by 24,000 to 1.819 million. These figures are consistent with continued job gains in March. As for other economy-wide news, the Federal Reserve reported yesterday that the M2 measure of the money supply was unchanged in February, but down 1.7% from a year ago, and is down 4.3% from the peak in April 2022. This is not a good sign for Real GDP growth in the year ahead and consistent with our view that we’re headed for a recession.



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-23	Q3-23	Q2-23	Q1-23	4-Quarter Change
Real GDP	3.4%	4.9%	2.1%	2.2%	3.1%
GDP Price Index	1.6%	3.3%	1.7%	3.9%	2.6%
Nominal GDP	5.1%	8.3%	3.8%	6.3%	5.9%
PCE	3.3%	3.1%	0.8%	3.8%	2.7%
Business Investment	3.8%	1.5%	7.4%	5.7%	4.6%
Structures	10.9%	11.2%	16.1%	30.3%	16.9%
Equipment	-1.1%	-4.4%	7.7%	-4.1%	-0.6%
Intellectual Property	4.3%	1.8%	2.7%	3.8%	3.1%
Contributions to GDP Growth (p.pts.)	Q4-23	Q3-23	Q2-23	Q1-23	4Q Avg.
PCE	2.2	2.1	0.6	2.5	1.9
Business Investment	0.5	0.2	1.0	0.8	0.6
Residential Investment	0.1	0.3	-0.1	-0.2	0.0
Inventories	-0.5	1.3	0.0	-2.2	-0.4
Government	0.8	1.0	0.6	0.8	0.8
Net Exports	0.3	0.0	0.0	0.6	0.2

Source: Bureau of Economic Analysis