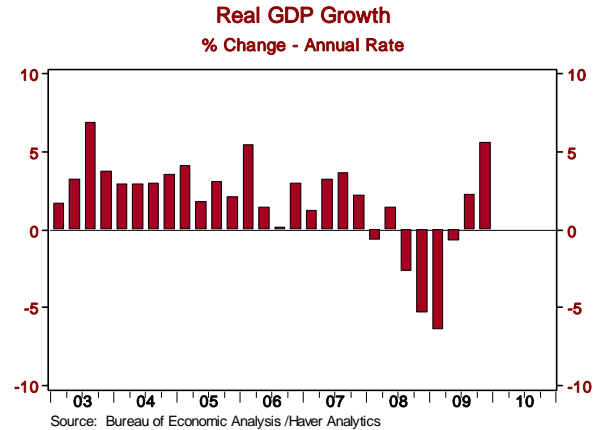


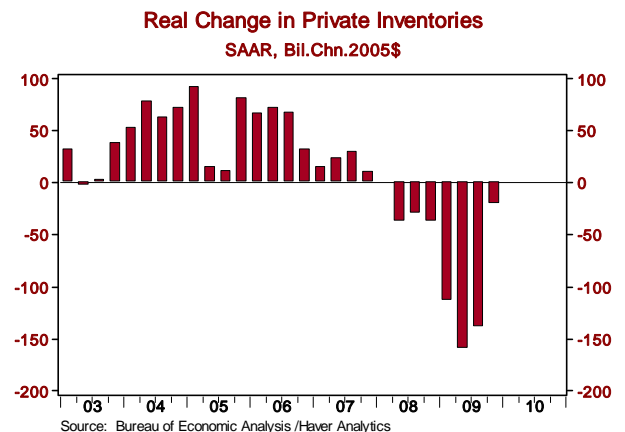
4TH QUARTER GDP (FINAL)

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- Real GDP growth in Q4 was revised down to a +5.6% annual rate from a previous estimate of +5.9%. The consensus expected +5.9%.
- The largest downward revisions versus last month's estimate of Q4 real GDP growth were for commercial construction and inventories. Business investment in equipment/software was revised upward.
- The largest positive contributions to the real GDP growth rate in Q4 were for inventories, personal consumption, and equipment/software. The weakest components of real GDP were commercial construction and government spending.
- The GDP price index was revised to a 0.5% annual rate of change from a prior estimate of 0.4%. Nominal GDP growth – real GDP plus inflation – was revised to a 6.1% annual rate in Q4 versus a prior estimate of 6.3%.



Implications: Real GDP boomed in Q4 and we anticipate robust 4.5% growth in the first half of 2010, tilted toward Q2 due to the unusually harsh winter weather. Although inventories accounted for most of the economic growth in Q4, this was because inventories declined by less than they did in the third quarter; there was no actual increase in goods on the shelf. Now, with inventory-to-sales ratios in both the retail and wholesale sectors at record lows and final sales (GDP excluding inventories) continuing to accelerate, inventories are poised to rise in 2010. Nominal GDP (real GDP growth plus inflation) grew at a 4.3% annual rate in the second half of 2010 and at a 6.1% rate in Q4. This makes near zero percent interest rates from the Federal Reserve way too loose and likely to cause rising inflation in the years ahead. The best news in today's report was on corporate profits, which increased at a 36% annual rate in Q4 and are now up 31% versus a year ago. The replenishment in profits is generating increases in business investment in equipment and will very soon generate a major improvement in the job market. In other recent news, new claims for unemployment insurance fell 14,000 last week to 442,000. The four-week moving average declined to 454,000 the lowest since the financial panic began in September 2008. Continuing claims dropped 54,000 to 4.65 million, the lowest in fifteen months.



| 4th Quarter GDP Seasonally Adjusted Annual Rates | Q4-09 | Q3-09 | Q2-09 | Q1-09 | 4-Quarter Change |
|---|---------------|--------------|--------------|--------------|---------------------|
| Real GDP | 5.6% | 2.2% | -0.7% | -6.4% | 0.1% |
| GDP Price Index | 0.5% | 0.4% | 0.0% | 1.9% | 0.7% |
| Nominal GDP | 6.1% | 2.6% | -0.8% | -4.6% | 0.7% |
| PCE | 1.6% | 2.8% | -0.9% | 0.6% | 1.0% |
| Business Investment | 5.3% | -5.9% | -9.6% | -39.2% | -14.1% |
| Structures | -18.1% | -18.4% | -17.3% | -43.6% | -25.3% |
| Equipment and Software | 19.0% | 1.5% | -4.9% | -36.4% | -7.5% |
| Contributions to GDP Growth (p.pts.) | Q4-09 | Q3-09 | Q2-09 | Q1-09 | 4Q Avg. |
| PCE | 1.2 | 2.0 | -0.6 | 0.4 | 0.7 |
| Business Investment | 0.5 | -0.6 | -1.0 | -5.3 | -1.6 |
| Residential Investment | 0.1 | 0.4 | -0.7 | -1.3 | -0.4 |
| Inventories | 3.8 | 0.7 | -1.4 | -2.4 | 0.2 |
| Government | -0.3 | 0.6 | 1.3 | -0.5 | 0.3 |
| Net Exports | 0.3 | -0.8 | 1.7 | 2.6 | 0.9 |

Source: Commerce Department