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4th Quarter GDP (Preliminary)

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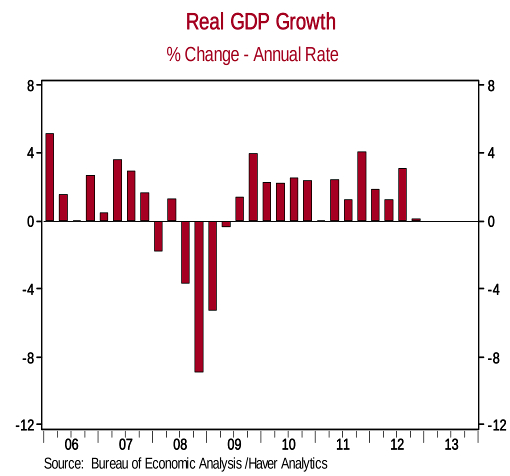
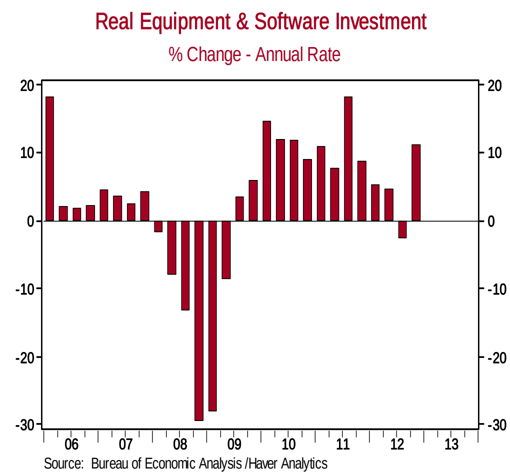
- Real GDP was revised to a 0.1% annual growth rate in Q4 from a prior estimate of -0.1%. The consensus had expected a revision to a +0.5% annual rate.
- Net exports and commercial construction were revised up, while inventories were revised lower.
- The largest positive contributions to the real GDP growth rate in Q4 were personal consumption and business investment in equipment & software. The weakest components were inventories and government purchases.
- The GDP price index was revised higher to a 0.9% annual rate of change from a prior estimate of 0.6%. Nominal GDP growth – real GDP plus inflation – was revised up to a 1.0% annual rate from a prior estimate of 0.5%.

Implications: Today's real GDP report was a mixed bag. The good news was that real GDP was revised to a slight growth rate of 0.1% for Q4 from an original estimate of -0.1%. Growth is obviously better than a contraction, no matter the size. In addition, the "mix" of GDP was more favorable for the future as inventories were revised lower for Q4, meaning more room on shelves and in showrooms for future quarters. However, in combination with the downward revision to inventories, *slight* downward revisions for consumer spending, business investment in equipment & software, and government purchases meant real GDP came in lower than the consensus expected growth rate of 0.5%. Once again, what we have here is another plow horse report. Nothing in today's news changes our forecast that real GDP will grow in the 2.5% - 3% range in 2013. Nominal GDP (real growth plus inflation) is up 3.5% from a year ago and up at a 3.7% annual rate in the past two years. These figures continue to suggest that a federal funds target rate of essentially zero makes monetary policy too loose. Regardless, don't look for the Federal Reserve to ease off on quantitative easing until at least the second half of the year. In other news this morning, new claims for jobless benefits declined 22,000 last week to 344,000. The four-week average is 355,000. Continuing claims for regular state benefits declined 91,000 to 3.07 million, a new low for the recovery. These data are consistent with a payroll increase of 200,000 for February. On the manufacturing front, the Chicago PMI, a survey of manufacturing sentiment in that region, increased to 56.8 for February, the highest in almost a year, from 55.6 for January. We're now forecasting that tomorrow's national ISM Manufacturing report is essentially unchanged at 53.0.





4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-12	Q3-12	Q2-12	Q1-12	4-Quarter Change
Real GDP	**0.1%**	3.1%	1.3%	2.0%	1.6%
GDP Price Index	**0.9%**	2.7%	1.6%	2.0%	1.8%
Nominal GDP	**1.0%**	5.9%	2.8%	4.2%	3.5%
PCE	**2.1%**	1.6%	1.5%	2.4%	1.9%
Business Investment	**9.7%**	-1.8%	3.6%	7.5%	4.6%
Structures	**5.7%**	0.0%	0.6%	12.8%	4.7%
Equipment and Software	**11.3%**	-2.6%	4.8%	5.4%	4.6%
Contributions to GDP Growth (p.pts.)	**Q4-12**	**Q3-12**	**Q2-12**	**Q1-12**	**4Q Avg.**
PCE	**1.5**	1.1	1.1	1.7	1.3
Business Investment	**1.0**	-0.2	0.4	0.7	0.5
Residential Investment	**0.4**	0.3	0.2	0.4	0.3
Inventories	**-1.6**	0.7	-0.5	-0.4	-0.4
Government	**-1.4**	0.8	-0.1	-0.6	-0.3
Net Exports	**0.2**	0.4	0.2	0.1	0.2

Source: Commerce Department