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4th Quarter GDP (Final)

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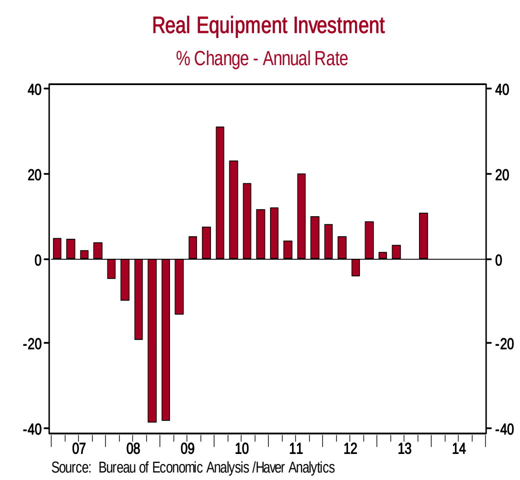
- Real GDP growth in Q4 was revised up to a 2.6% annual rate versus a prior estimate of 2.4%. The consensus had expected 2.7%.
- The largest positive revision was for consumer spending. Inventories and business investment in in intellectual property were revised slightly lower.
- The largest positive contributions to the real GDP growth rate in Q4 came from consumer spending and net exports. The weakest component of real GDP, by far, was government purchases.
- The GDP price index was unrevised at a 1.6% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 4.2% annual rate versus a prior estimate of 4.0%. Nominal GDP is up 4.1% versus a year ago.



Implications: The biggest news this morning was that initial claims for unemployment insurance declined 10,000 last week to 311,000 and continuing claims dropped 53,000 to 2.82 million. Plugging these figures into our payroll models suggests a solid March gain of 203,000 nonfarm and 205,000 for the private sector. We will be adjusting this forecast to reflect incoming data over the next week, but it looks like the pace of job growth is bouncing back from weather-related problems this winter. The other big report this morning was on GDP and it's hard to get more mediocre than the top-line number on Q4. Real GDP growth for Q4 was revised up to a 2.6% annual rate from a prior estimate of 2.4%. That fell slightly short of the consensus expected 2.7% rate. However, the "mix" of GDP was slightly more favorable for future quarters as inventories were revised down. The best part of today's GDP report was our first glimpse on economy-wide corporate profits, which grew at a 9.2% annual rate in Q4 and are up 6.2% from a year ago. Corporate profits are again at an all-time high and are the largest share of GDP since 1950. Nominal GDP (real growth plus inflation) is up 4.1% from a year ago and up at a 3.9% annual rate in the past two years. For comparison, the average annual growth for nominal GDP is 3.8% in the past ten years. In other words, the Federal Reserve is still keeping interest rates near zero and expanding its balance sheet at the same time nominal GDP growth appears quite normal. This can't be sustained without generating higher inflation in the next several years. Look for a temporary slowdown in real GDP growth in Q1 due to the unusually harsh winter, with a rebound in Q2 and beyond. In other news this morning, pending home sales, which are contracts on existing homes, declined 0.8% in February. As a result, we expect existing home sales, which are counted at closing, to show a continued decline in March, before rebounding in Q2.

4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-13	Q3-13	Q2-13	Q1-13	4-Quarter Change
Real GDP	2.6%	4.1%	2.5%	1.1%	2.6%
GDP Price Index	1.6%	2.0%	0.6%	1.3%	1.4%
Nominal GDP	4.2%	6.2%	3.1%	2.8%	4.1%
PCE	3.3%	2.0%	1.8%	2.3%	2.3%
Business Investment	5.7%	4.8%	4.7%	-4.6%	2.6%
Structures	-1.8%	13.4%	17.6%	-25.7%	-0.7%
Equipment	10.9%	0.2%	3.2%	1.6%	3.9%
Intellectual Property	4.0%	5.7%	-1.5%	3.8%	3.0%
Contributions to GDP Growth (p.pts.)	**Q4-13**	**Q3-13**	**Q2-13**	**Q1-13**	**4Q Avg.**
PCE	2.2	1.4	1.2	1.5	1.6
Business Investment	0.7	0.6	0.6	-0.6	0.3
Residential Investment	-0.3	0.3	0.4	0.3	0.2
Inventories	0.0	1.7	0.4	0.9	0.7
Government	-1.0	0.1	-0.1	-0.8	-0.5
Net Exports	1.0	0.1	-0.1	-0.3	0.2