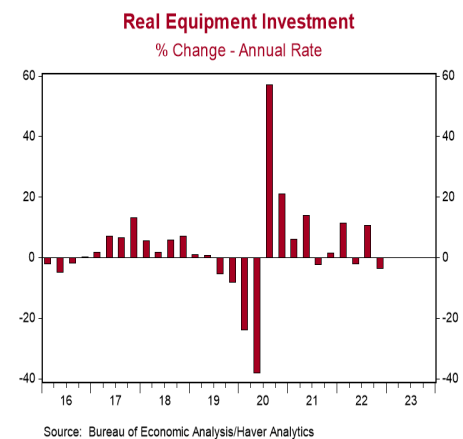


4th Quarter GDP (Final)

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Senior Economist

- Real GDP growth in Q4 was revised slightly lower to a 2.6% annual rate from a prior estimate of and consensus expected 2.7%.
- Downward revisions to consumer spending, and net exports more than offset upward revisions to business investment, home building, and government purchases.
- The largest positive contributions to the real GDP growth rate in Q4 were inventories, consumer spending, and government purchases. The weakest component was home building.
- The GDP price index was unrevised at a 3.9% annual growth rate. Nominal GDP growth – real GDP plus inflation – was revised down to a 6.6% annualized rate from a prior estimate of 6.7%.

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 declined 2.0% in the fourth quarter compared to the third quarter. However, the decline in profits was led by losses from the Federal Reserve, not the private sector. We expect private-sector profits to drop this year as the economy slows, but the GDP data show this hasn’t happened yet. Today’s final report on fourth quarter real GDP was revised slightly lower to a 2.6% annual rate versus an estimate of 2.7% made a month ago. The lower overall number was mainly due to a downward revision to consumer spending on services, which more than offset an upward revision to commercial construction. Meanwhile, nominal GDP (real GDP growth plus inflation) rose at a 6.6% annual rate in Q4 and is up 7.3% 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 fell at a 1.1% annual rate in Q4 and is up only 0.4% versus a year ago, consistent with underlying economic weakness. In other news this morning, initial unemployment claims rose 7,000 last week to 198,000, while continuing claims increased by 4,000 to 1.689 million. These figures are consistent with continued job gains in March. As for other economy-wide news, the Federal Reserve reported on Tuesday that the M2 measure of the money supply dropped 0.6% in February, is down 2.4% from a year ago, and is down at a 5.0% annualized rate from the peak in July. 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. On the housing front, prices were mixed. The national Case-Shiller index declined 0.2% in January and is now down 3.0% versus the peak in June 2022. The FHFA index, which measures homes financed by conforming mortgages, increased 0.2% in January, but is still down 0.6% versus the peak in June last year. In other housing news, pending home sales, which are contracts on existing homes, rose 0.8% in February after an 8.1% surge in January, suggesting that closings on existing homes will remain above the near-term bottom hit back in January. On the manufacturing front, the Richmond Fed index, a measure of mid-Atlantic factory activity, rose to -5 in March from -16 in February, still signaling contraction.



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-22	Q3-22	Q2-22	Q1-22	4-Quarter Change
Real GDP	2.6%	3.2%	-0.6%	-1.6%	0.9%
GDP Price Index	3.9%	4.4%	9.0%	8.3%	6.4%
Nominal GDP	6.6%	7.7%	8.5%	6.6%	7.3%
PCE	1.0%	2.3%	2.0%	1.3%	1.7%
Business Investment	4.0%	6.2%	0.1%	7.9%	4.5%
Structures	15.7%	-3.6%	-12.7%	-4.4%	-1.8%
Equipment	-3.5%	10.6%	-2.1%	11.4%	3.9%
Intellectual Property	6.2%	6.8%	8.9%	10.8%	8.2%
Contributions to GDP Growth (p.pts.)	Q4-22	Q3-22	Q2-22	Q1-22	4Q Avg.
PCE	0.7	1.5	1.4	0.9	1.1
Business Investment	0.5	0.8	0.0	1.0	0.6
Residential Investment	-1.2	-1.4	-0.9	-0.2	-0.9
Inventories	1.5	-1.2	-1.9	0.2	-0.4
Government	0.7	0.7	-0.3	-0.4	0.2
Net Exports	0.4	2.9	1.2	-3.1	0.3

Source: Bureau of Economic Analysis