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4th Quarter GDP (Final)

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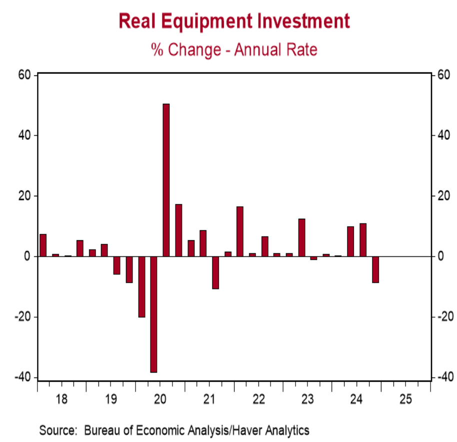
- Real GDP growth in Q4 was revised slightly higher to 2.4% from a prior estimate of 2.3%, narrowly beating the consensus expected 2.3% annualized rate.
- Upward revisions to net exports, business investment, government purchases, and residential investment offset a downward revision to consumer spending.
- 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 revised slightly lower to a 2.3% annual growth rate. Nominal GDP growth – real GDP plus inflation – was unrevised at a 4.8% annualized rate.



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 grew 5.4% in the fourth quarter vs. the third quarter and are up 6.9% from a year ago. The best news was that profits in all major areas were up. Profits from domestic non-financial industries grew 2.0%, while profits from domestic financial firms grew 10.7%. Profits from the rest of the world increased by 18.8% for the quarter. Financial industry data include the Federal Reserve (either profits, or losses) and because the Fed 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 in the private sector), overall corporate profits were up 4.1% in the fourth quarter and up 5.5% from a year ago. However, plugging in non-Fed profits into our Capitalized Profits Model suggests stocks remain overvalued. Looking at the other details of today's report, the final reading for real GDP growth in the fourth quarter was revised slightly higher from last month's estimate, coming in at a 2.4% annual rate, but the underlying components showed a slightly weaker mix. Downward revisions in consumer spending (specifically services) offset a larger increase in net exports, and other small increases in business investment (mainly structures), home building, and government purchases. For a more accurate measure of sustainable growth, we focus on "core" GDP, which includes consumer spending, business fixed investment, and home building, but excludes the more volatile categories like government purchases, inventories, and international trade. "Core" GDP grew at a 2.9% annual rate in Q4, slightly lower than last month's prior estimate of +3.0%. Today we also got Q4 Real Gross Domestic Income (GDI), an alternative measure of economic activity. Real GDI was up at a 4.5% annual rate in Q4 and up 2.7% from a year ago. GDP inflation was revised slightly lower to a 2.3% annual rate in Q4, and is up 2.5% over the past year, both still higher than the Fed's 2.0% target. Meanwhile, nominal GDP (real growth plus inflation) increased at a 4.8% annual rate in Q4 and is up 5.0% year-over-year. A 5.0% trend growth rate in nominal GDP suggests the Fed should be reluctant to cut rates in the near future. On the labor front this morning, initial jobless claims declined 1,000 last week to 224,000. Meanwhile, continuing claims declined 25,000 to 1.881 million. These figures are consistent with continued job growth in March.

4th Quarter GDP *Seasonally Adjusted Annual Rates*	*Q4-24*	*Q3-24*	*Q2-24*	*Q1-24*	*4-Quarter Change*
Real GDP	**2.4%**	3.1%	3.0%	1.6%	2.5%
GDP Price Index	**2.3%**	1.9%	2.5%	3.0%	2.5%
Nominal GDP	**4.8%**	5.0%	5.6%	4.7%	5.0%
PCE	**4.0%**	3.7%	2.8%	1.9%	3.1%
Business Investment	**-3.0%**	4.0%	3.9%	4.5%	2.3%
Structures	**2.9%**	-5.0%	0.2%	6.2%	1.0%
Equipment	**-8.7%**	10.8%	9.9%	0.3%	2.8%
Intellectual Property	**-0.5%**	3.1%	0.7%	7.5%	2.6%
Contributions to GDP Growth (p.pts.)	**Q4-24**	**Q3-24**	**Q2-24**	**Q1-24**	**4Q Avg.**
PCE	**2.7**	2.5	1.9	1.3	2.1
Business Investment	**-0.4**	0.6	0.5	0.6	0.3
Residential Investment	**0.2**	-0.2	-0.1	0.5	0.1
Inventories	**-0.8**	-0.2	1.1	-0.5	-0.1
Government	**0.5**	0.9	0.5	0.3	0.6
Net Exports	**0.3**	-0.4	-0.9	-0.6	-0.4

Source: Bureau of Economic Analysis