

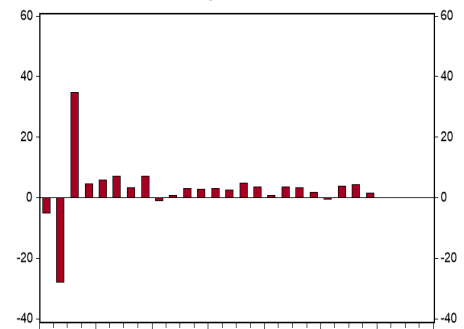
## 4<sup>th</sup> Quarter GDP (Initial)

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- Real GDP increased at a 1.4% annual rate in Q4, widely lagging the consensus expected +2.8%.
- The largest positive contributions to real GDP growth in Q4 came from personal consumption and business investment in intellectual property. Other positive contributors were inventories, business investment in equipment, and net exports. Government purchases were the largest drag on real GDP growth, while commercial construction and home building were small drags as well.
- Personal consumption, business fixed investment, and home building, combined, rose at a 2.4% annual rate in Q4. We refer to this as “core” GDP.
- The GDP price index increased at a 3.6% annual rate in Q4 and is up 3.3% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 5.1% annual rate in Q4 and is up 5.6% from a year ago.

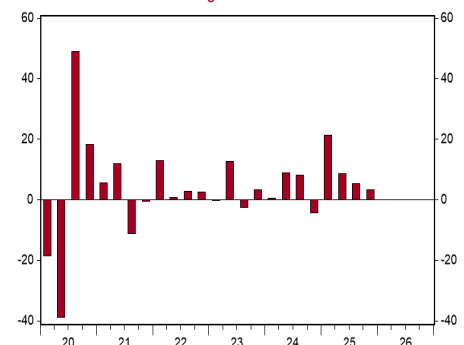
**Implications:** Soft headline, respectable details, and a caution signal for the Fed. Real GDP grew at a 1.4% annual rate in the last quarter of 2025, well below the consensus expected 2.8%. However, the key components of the report that are most indicative of the underlying health of the economy were not the source of weakness. For example, real consumer spending grew at a 2.4% rate, which was exactly as we expected. Business fixed investment – including equipment, commercial construction, and intellectual property – grew at a solid 3.7% annual rate. So why did real GDP grow more slowly? Primarily because government purchases shrank at a 5.1% rate, led by the federal government, where purchases dropped at a 16.6% rate. As a result, government purchases reduced the pace of real GDP growth by 0.9 percentage points. Excluding government at all levels (federal, state, and local), real GDP grew at a 2.8% pace in Q4. We like to follow Core Real GDP, which includes consumer spending, business fixed investment, and home building, and excludes more volatile categories like government purchases, inventories, and international trade. Core Real GDP grew at a 2.4% annual rate in the fourth quarter and was up 2.6% versus a year ago. In other words, we don’t think fourth quarter GDP signals some sort of change in the trend for growth. The most worrisome part of the report was that GDP prices rose at a 3.6% rate in Q4 and are up 3.3% from a year ago. As a result, the Federal Reserve is getting mixed signals on cutting rates, given that the recent CPI report shows a deceleration in inflation instead. Nominal GDP rose at a 5.1% rate in the fourth quarter and is up 5.6% versus a year ago, both figures well higher than the current 3.625% target on short-term rates.

Real GDP Growth  
% Change - Annual Rate



Source: Bureau of Economic Analysis/Haver Analytics

Real Equipment Investment  
% Change - Annual Rate



Source: Bureau of Economic Analysis/Haver Analytics

4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-25	Q3-25	Q2-25	Q1-25	4-Quarter Change
Real GDP	1.4%	4.4%	3.8%	-0.6%	2.2%
GDP Price Index	3.6%	3.8%	2.1%	3.6%	3.3%
Nominal GDP	5.1%	8.3%	6.0%	2.9%	5.6%
PCE	2.4%	3.5%	2.5%	0.6%	2.2%
Business Investment	3.7%	3.2%	7.3%	9.5%	5.9%
Structures	-2.4%	-5.0%	-7.5%	-3.1%	-4.5%
Equipment	3.2%	5.2%	8.5%	21.3%	9.4%
Intellectual Property	7.4%	5.6%	15.0%	6.5%	8.6%
Contributions to GDP Growth (p.pts.)	Q4-25	Q3-25	Q2-25	Q1-25	4Q Avg.
PCE	1.6	2.3	1.7	0.4	1.5
Business Investment	0.5	0.4	1.0	1.2	0.8
Residential Investment	-0.1	-0.3	-0.2	0.0	-0.2
Inventories	0.2	-0.1	-3.4	2.6	-0.2
Government	-0.9	0.4	0.0	-0.2	-0.2
Net Exports	0.1	1.6	4.8	-4.7	0.5

Source: Bureau of Economic Analysis