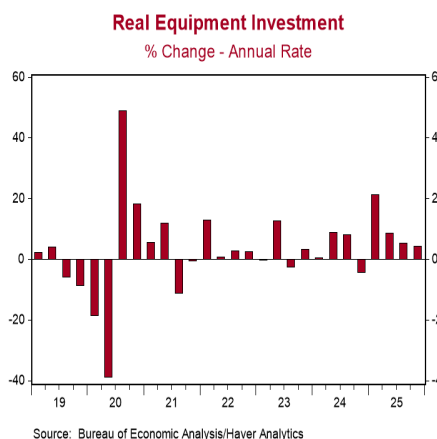
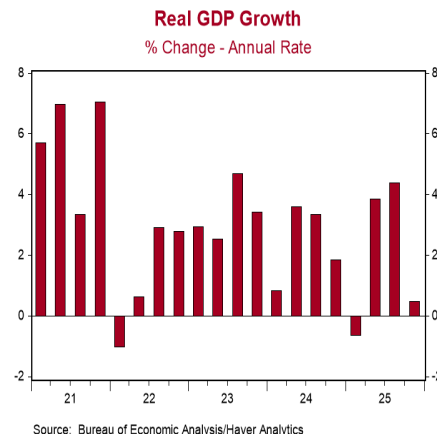


# 4<sup>th</sup> Quarter GDP (Final)

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- Real GDP growth in Q4 was revised lower to a 0.5% annual rate, lagging the prior reported and consensus expected 0.7%.
- Downward revisions to inventories, home building, and personal consumption more than offset upward revisions to business investment and government purchases.
- The largest positive contribution to the real GDP growth rate in Q4, by far, was consumer spending. The weakest component, by far, was government purchases.
- The GDP price index was revised lower to 3.7% annual growth rate from a prior estimate of 3.8%. Nominal GDP growth – real GDP plus inflation – was revised lower to a 4.2% annualized rate from a prior estimate of 4.5%.



**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 6.0% in the fourth quarter vs. the third quarter and are up 9.6% from a year ago. The best news was that profits in all major areas were up. Profits from domestic non-financial industries grew 2.5% in the fourth quarter, while profits from domestic financial firms rose 8.8%. Profits from the rest of the world jumped 20.2% for the quarter. Financial industry data include the Federal Reserve (either profits, or losses) and because the Fed pays private banks interest on reserves it has been generating unprecedented losses in recent years. However, that changed in Q4 with the Fed earning positive profits for the first time since 2022. Excluding the Fed (because we want to accurately count profits in the private sector), overall corporate profits were up 5.1% in the fourth quarter and up 8.2% from a year ago. One note of caution is that 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 lower from last month’s estimate, coming in at a 0.5% annual rate, finishing 2.0% higher in 2025. A downward revision to inventories more than offset small upward revisions to business investment 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 1.8% annual rate in Q4, slightly lower than last month’s prior estimate of 1.9% and marking the lowest quarterly growth rate in three years, but still up 2.4% from a year ago. Today we also got Q4 Real Gross Domestic Income (GDI), an alternative measure of economic activity. Real GDI was up at a 2.6% annual rate in Q4 and up 2.4% from a year ago. GDP inflation was revised slightly lower to a 3.7% annual rate in Q4, and is up 3.3% over the past year, both still higher than the Fed’s 2.0% target. In other news this morning, cars and light trucks were sold at a 16.3 million annual rate in March, up 3.7% from February but down 8.7% from a year ago.

| <b>4th Quarter GDP</b><br><i>Seasonally Adjusted Annual Rates</i> | <b>Q4-25</b> | <b>Q3-25</b> | <b>Q2-25</b> | <b>Q1-25</b> | <b>4-Quarter Change</b> |
|---|--------------|--------------|--------------|--------------|-------------------------|
| <b>Real GDP</b>   | <b>0.5%</b>  | 4.4%         | 3.8%         | -0.6%        | 2.0%                    |
| <b>GDP Price Index</b>  | <b>3.7%</b>  | 3.8%         | 2.1%         | 3.6%         | 3.3%                    |
| <b>Nominal GDP</b>  | <b>4.2%</b>  | 8.3%         | 6.0%         | 2.9%         | 5.4%                    |
| <b>PCE</b>  | <b>1.9%</b>  | 3.5%         | 2.5%         | 0.6%         | 2.1%                    |
| <b>Business Investment</b>  | <b>2.4%</b>  | 3.2%         | 7.3%         | 9.5%         | 5.6%                    |
| <b>Structures</b>   | <b>-6.6%</b> | -5.0%        | -7.5%        | -3.1%        | -5.5%                   |
| <b>Equipment</b>  | <b>4.3%</b>  | 5.2%         | 8.5%         | 21.3%        | 9.6%                    |
| <b>Intellectual Property</b>                                      | <b>5.4%</b>  | 5.6%         | 15.0%        | 6.5%         | 8.0%                    |
| <b>Contributions to GDP Growth (p.pts.)</b>                       | <b>Q4-25</b> | <b>Q3-25</b> | <b>Q2-25</b> | <b>Q1-25</b> | <b>4Q Avg.</b>          |
| <b>PCE</b>  | <b>1.3</b>   | 2.3          | 1.7          | 0.4          | 1.4                     |
| <b>Business Investment</b>  | <b>0.3</b>   | 0.4          | 1.0          | 1.2          | 0.7                     |
| <b>Residential Investment</b>                                     | <b>-0.1</b>  | -0.3         | -0.2         | 0.0          | -0.2                    |
| <b>Inventories</b>  | <b>0.1</b>   | -0.1         | -3.4         | 2.6          | -0.2                    |
| <b>Government</b>   | <b>-1.0</b>  | 0.4          | 0.0          | -0.2         | -0.2                    |
| <b>Net Exports</b>  | <b>-0.2</b>  | 1.6          | 4.8          | -4.7         | 0.4                     |

Source: Bureau of Economic Analysis