

Real GDP increased a somewhat better-than-expected 5.7% in the fourth quarter. The increase followed a modest 2.2% increase in the third quarter and is the second increase in as many quarters. Prior to the third quarter, real GDP decreased in four straight quarters by a total of 3.8% – the largest decline during a four-quarter stretch in the record dating back to 1948.

Real GDP fell 2.4% in 2009 – the largest calendar year decline since the transition from wartime to a peacetime economy in 1946 and, before that, the recession year of 1938. Compared with a year earlier, fourth quarter real GDP was higher by 0.1%. Final sales, which exclude changes in business inventories, increased 2.2% after rising 1.5% in the third quarter. Compared with a year earlier, final sales were marginally higher by 0.1%.

A tapering in inventory liquidation in response to positive changes in demand accounted for approximately 60% of the 5.7% rise in real GDP. Exports contributed one-third of the gain. Personal consumption expenditures accounted for approximately 25%. Production of motor vehicles and parts subtracted marginally after adding significantly in the third quarter.

Business investment in equipment and software increased 13.3% (the strongest gain since the first quarter of 2006), accounting for approximately one-eighth of the rise in GDP. Investment in residential structures increased at a moderate rate, but extended the string of quarterly increases to two. Growth did not depend on government spending, which was little changed on the quarter.

Business investment in structures posted its sixth consecutive major quarterly decline, subtracting approximately one-half percentage point from real GDP growth. Much of the increase in aggregate demand was satisfied by production overseas, as imports increased 10.5%.

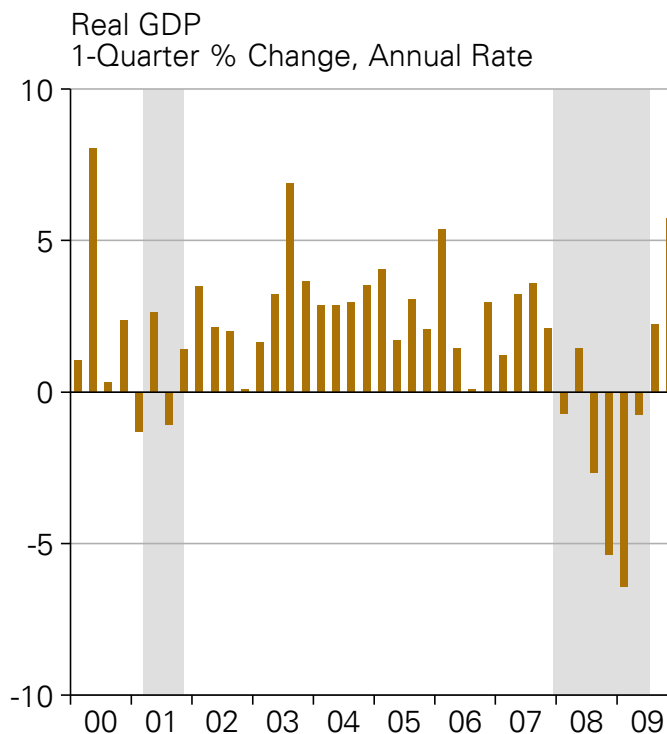
The trajectory of production early in this recovery – assuming that the recession ended in the middle of last year – is typical compared with the nine other recoveries in the postwar period that lasted more than one year. (This excludes the 6-month recovery from July 1980 to January 1981.) Growth in real GDP during the second half

**Real GDP expanded 5.7% in the fourth quarter, all but ending any debate about whether the recession has ended.**

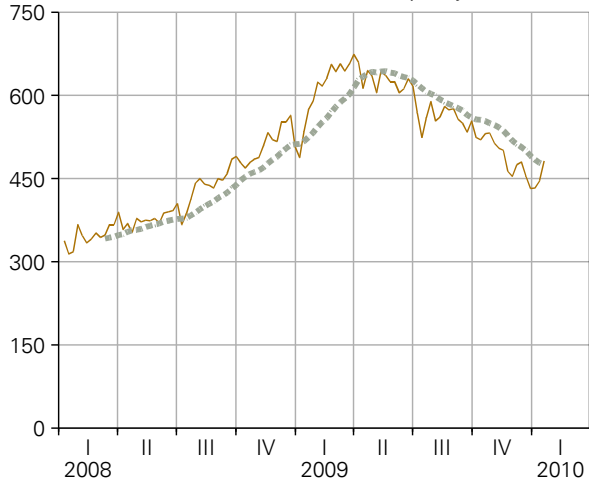
of 2009 was stronger than in the first half-year of five previous recoveries and weaker than in four. The inventory swing has contributed a disproportionate share of the growth so far in this fledgling recovery, however. Growth in final sales so far has been weaker than at this stage in seven previous recoveries, about the same as in the recovery from the 1953-54 recession and stronger only than in the recovery from the 1990-91 recession.

The weakness in final sales growth so far provides some support for the widely held notion that subdued consumer spending will keep real GDP growth below average at least for a while in the current recovery.

Jim Coons



Initial Claims for Unemployment Insurance  
Thousands Per Week, Seasonally Adjusted



U. S. Dollar Exchange Rate  
FRB Major Currency Index, 1973 = 100



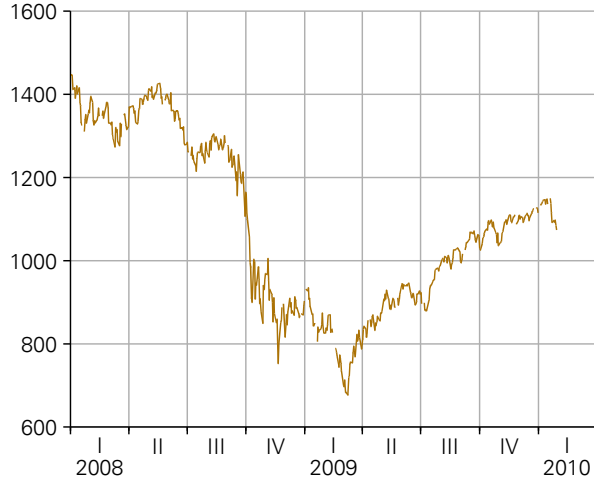
Price of Oil  
West Texas Int, \$/bbl



Price of Gold  
London PM Fixing, \$/oz



S&P 500 Stock Prices  
Daily Close, Index 1941-43 = 10



Mortgage Loan Originations  
MBA Purchase Index 3/16/90=100 SA

