

The Commerce Department dialed back its calculation of the Q4 growth from 5.9% to 5.6%. The initial estimate was 5.7%. Growth in Q3 was reduced from an initial estimate of 3.7% to 2.2%. Corporate profits surged due to tight cost controls. Leading indicators appear consistent with slower real GDP growth in the first half.

The inventory swing remained the largest contributor to Q4 growth. The level of inventories decreased by a little more than previously reported but by much less than in Q3, adding 3.8 percentage points to GDP growth instead of the 3.9 points reported last month.

Growth in final sales, which excludes the inventory swing, slowed from 1.9% to 1.7%. The initial estimate was 2.2%. Final sales grew 1.5% in the third quarter. The 1.6% annualized growth rate over the two quarters is the weakest on record, outside of lackluster beginning to the recovery from the 2001 recession.

The downward revision to final sales growth resulted from downward revisions to growth in investment in nonresidential structures (from -13.9% to -18.0%) and consumer spending on services (from +1.2% to 1.0%) .

Business investment in equipment and software and exports made the biggest positive contributions to growth. Investment in residential structures made a small positive contribution for the second consecutive quarter.

Spending by financially strapped state and local governments decreased 2.2%, subtracting 0.27 percentage points from GDP growth.

Corporate profits from current production increased 8.0% in Q4 (36.0% annualized) – down from 10.8% in Q3, but the fourth gain in as many quarters. Compared with a year earlier, profits were higher by 30.6% – the first time in positive territory since 2006-Q4 and the fastest year-over-year growth rate (by a small amount) since 1984-Q1 (the first full quarter of economic growth following the deep 1981-82 recession).

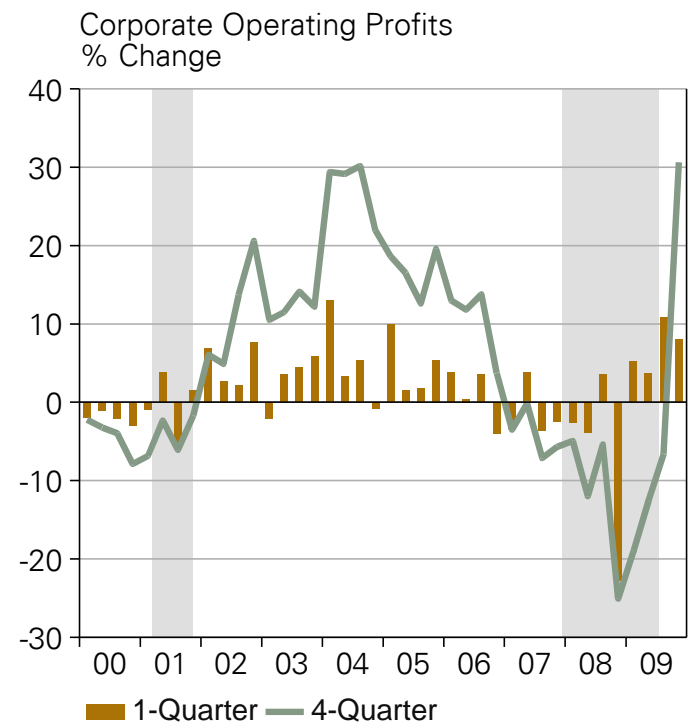
The jump in profits reflects the surge in nominal GDP combined with the continued decrease in labor costs. Unit labor costs decreased 5.9% annualized in Q4. Even after

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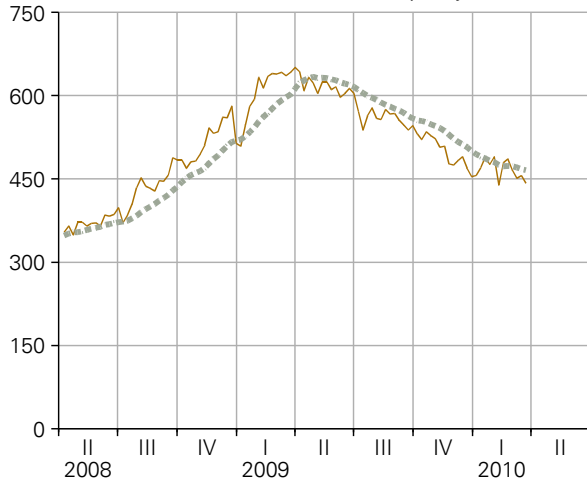
the impressive gain of the past year, however, profits remain 11.3% below the peak reached in 2006-Q3. Although profits are likely to continue to expand throughout the year, the peak rate of growth for this cycle is at hand.

The Weekly Leading Index posted the third straight increase on a 4-week moving average basis in the week ending March 19 after five weekly declines. The smoothed six-month rate of change ticked up to 13.8% – the second gain after 21 straight weekly declines.

Jim Coons



Initial Claims for Unemployment Insurance  
Thousands Per Week, Seasonally Adjusted



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



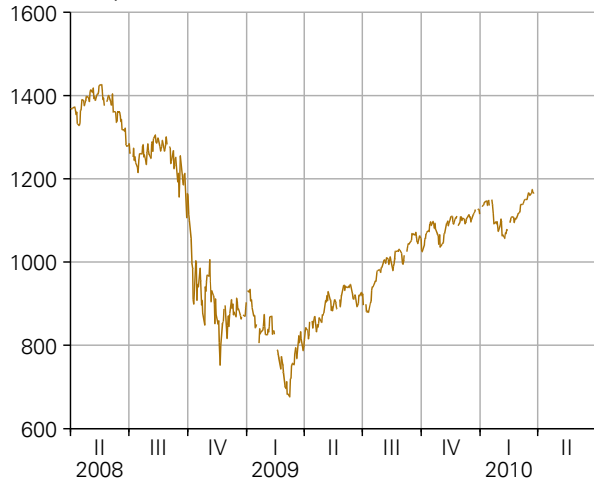
Price of Oil  
West Texas Int, \$/bbl



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

