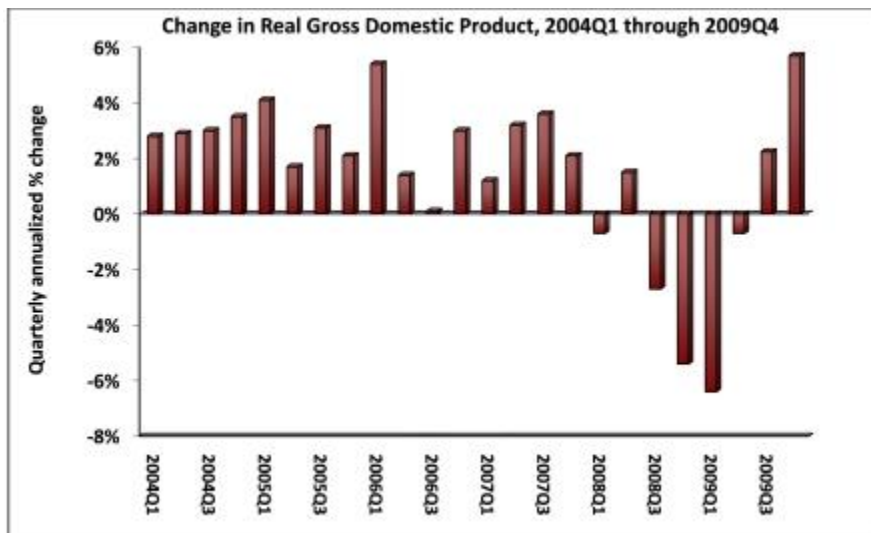


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Fourth Quarter GDP: 2009 Ends as Mixed Bag

"There are a number of encouraging elements to the report, including the fact that much of the fourth quarter's expansion had little to do with federal spending." —**ABC Chief Economist Anirban Basu**

Last year ended as a mixed bag as nonresidential fixed investment increased 2.9 percent from the third quarter to the fourth quarter of 2009, according to the January 29 gross domestic product (GDP) report by the U.S. Commerce Department. The increase was led largely by a 13.3 percent gain in equipment and software spending. However, investment in nonresidential structures declined 15.4 percent following an 18.4 percent loss in the third quarter. (See Analysis below)



Source: Bureau of Economic Analysis

Residential fixed investment increased 5.7 percent in the fourth quarter following an 18.9 percent gain in the third quarter. Exports continued to grow, surging 18.1 percent, arguably the most encouraging aspect of today's GDP report. Imports rose 10.5 percent. Personal consumption expenditures also grew 2.0 percent primarily due to a 4.3 percent increase in nondurable goods consumption. Durable goods consumption declined 0.9 percent for the quarter following a 20.4 percent increase in the third quarter. Private inventories grew by 3.4 percent in the fourth quarter while final sales (GDP less private inventories) increased 2.2 percent. Federal government spending increased just 0.1 percent in the

fourth quarter following an 8 percent gain in the third. Defense spending decreased 3.5 percent after an 8.4 percent gain the previous quarter.

Gross domestic purchases also gained 2.1 percent for the quarter and increased 1.2 percent, excluding food and energy purchases. Overall, real gross domestic product increased 5.7 percent for the quarter, the fastest growth pace since 2003.

Analysis

“While many observers will take comfort in today's GDP report, most nonresidential contractors will not,” said Associated Builders and Contractors (ABC) Chief Economist Anirban Basu. “However, there are a number of encouraging elements to the report, including the fact that much of the fourth quarter's expansion had little to do with federal spending. Instead, output gains were largely attributable to America's technology sector, growing consumer activity and an improving global economy, which contributed to the surge in exports.

“The most surprising aspect of the report is the absence of federal spending as a primary economic driver, though non-defense spending was up for the quarter,” said Basu. “It is important for ABC members to note that GDP is subject to revision and one of the aspects that may be revised is the estimate of federal spending contribution.

“For the nonresidential construction industry, there are certainly elements of the report that are discouraging. Investment in nonresidential structures continues to decline even in the wake of the stimulus package passed last February,” said Basu. “Further, many economists are concerned that the fourth quarter surge in GDP will be largely a one-quarter phenomenon, and that the economic recovery still remains fragile, especially given anticipated increases in various tax rates and interest rates this year and next.”