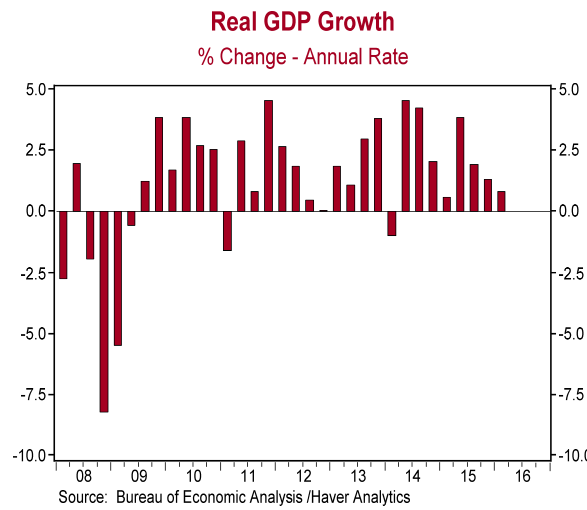
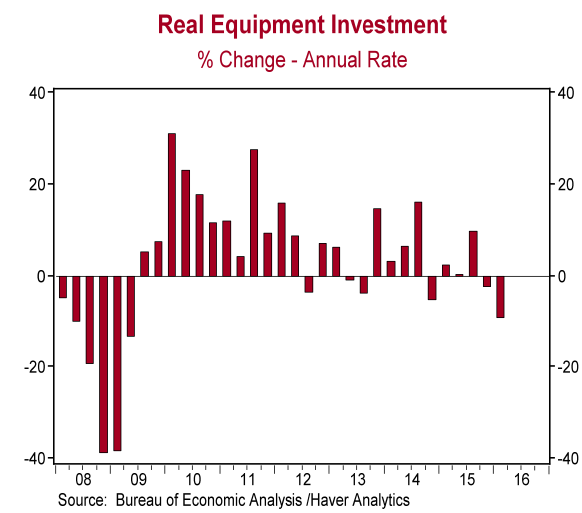
1st Quarter GDP (Preliminary)

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Real GDP was revised up to a 0.8% annual rate in Q1 from a prior estimate of 0.5%. The consensus expected 0.9%.
- The largest upward revisions were for net exports and inventories.
- The largest positive contribution to the real GDP growth rate in Q1 was personal consumption and home building. The weakest component was business investment.
- The GDP price index was revised slightly lower to a 0.6% annual rate. Nominal GDP growth – real GDP plus inflation – was revised higher to a 1.4% annual rate from a prior estimate of 1.2%.

Implications: It doesn't get much more Plow Horse than this. The good news is that real GDP growth in the first quarter was revised up to a 0.8% annual rate from a previous estimate of 0.5%. However, almost all of the upward revision was due to inventories and net exports, neither of which can be relied on for consistent long-term economic growth. Since the economic recovery started in mid-2009, real GDP has been growing at an average annual rate of 2.1%. Look for faster economic growth over the next couple of years, but not much faster. We like to follow "core" GDP, which is real GDP excluding inventories, trade, and government purchases. In the past two years, core GDP is up at a 3.1% annual rate. Meanwhile, real GDI (gross domestic income), which tends to track real GDP, is up at a 2.7% rate in the past two years. The brightest spot in the economy remains home building, which soared at a 17.2% annual rate in the first quarter and has grown in every quarter for the past two years. Today we also got an initial look at corporate profits in Q1, which rose 0.3% versus Q4 but are down 5.7% from a year ago. The gain in profits in Q1 itself was due to domestic nonfinancial industries where profits grew 4%. Slower growth in advanced economies abroad and the stronger dollar, pushed down profits earned abroad by 9.9%. We think profits were held down by relatively slow economic growth in the first quarter and will rebound more sharply later this year. In terms of monetary policy, nothing in today's report should prevent the Federal Reserve from raising rates in June. Nominal GDP (real growth plus inflation) was revised up to a 1.4% annual growth rate in Q1 from a prior estimate of 1.2%. Nominal GDP is up 3.3% from a year ago and up at a 3.6% annual rate in the past two years. These figures show the Fed's target for short-term interest rates is too low and monetary policy is too loose.





1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-16	Q4-15	Q3-15	Q2-15	4-Quarter Change
Real GDP	0.8%	1.4%	2.0%	3.9%	2.0%
GDP Price Index	0.6%	0.9%	1.3%	2.1%	1.2%
Nominal GDP	1.4%	2.3%	3.3%	6.1%	3.3%
PCE	1.9%	2.4%	3.0%	3.6%	2.7%
Business Investment	-6.2%	-2.1%	2.6%	4.1%	-0.5%
Structures	-8.9%	-5.1%	-7.2%	6.3%	-3.9%
Equipment	-9.0%	-2.1%	9.9%	0.3%	-0.4%
Intellectual Property	-0.1%	-0.1%	-0.8%	8.3%	1.8%
Contributions to GDP Growth (p.pts.)	**Q1-16**	**Q4-15**	**Q3-15**	**Q2-15**	**4Q Avg.**
PCE	1.3	1.7	2.0	2.4	1.9
Business Investment	-0.8	-0.3	0.3	0.5	-0.1
Residential Investment	0.6	0.3	0.3	0.3	0.4
Inventories	-0.2	-0.2	-0.7	0.0	-0.3
Government	0.2	0.0	0.3	0.5	0.3
Net Exports	-0.2	-0.1	-0.3	0.2	-0.1