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4th Quarter GDP (Final)

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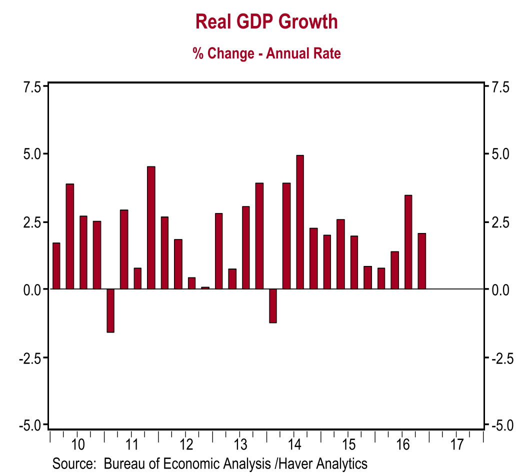
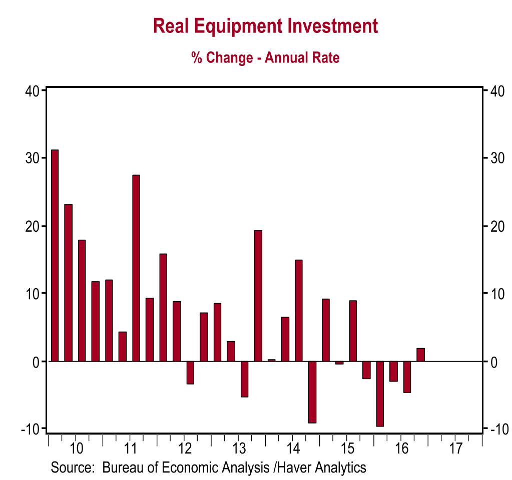
- Real GDP growth in Q4 was revised up to a 2.1% annual rate, narrowly beating the consensus expected 2.0%.
- The largest positive revisions were for consumer spending and inventories, while net exports, business investment and government spending were revised lower.
- The largest positive contributions to the real GDP growth rate in Q4 came from consumer spending and inventories. The weakest component of real GDP was net exports.
- The GDP price index was revised up to a 2.1% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 4.2% annual rate versus a prior estimate of 3.9%. Nominal GDP is up 3.5% versus a year ago.





Implications: It's hard to get more Plow Horse than the top-line number on fourth quarter GDP. Real GDP growth was revised up to a 2.1% growth rate from last month's estimate of 1.9%, largely due to an upward revision to consumer spending. The most important news and the best news in today's report was the first look at economy-wide Q4 corporate profits, which rose 0.5% compared to the third quarter and are up 9.3% from a year ago. The gain was due to profits from overseas operations. Profits in Q4 would have been even higher, but Volkswagen had to pay a settlement to the government for their emissions scandal, which reduced overall corporate profits by $4.95 billion. Overall corporate profits have now risen for two consecutive quarters, and in the quarters ahead, overall profits should continue to revive as consumers spend more of their savings from lower energy prices. Expect a new all-time record high for profits in the first half of 2017. Plugging the new profits number into our capitalized profits model tells us that the market is still about 25% undervalued. Based on this information, we continue to forecast the S&P 500 to reach 2700 by year end. Meanwhile, nothing in today's report changes our view that the Federal Reserve has plenty of reason to keep raising short-term interest rates. Nominal GDP (real growth plus inflation) is up 3.5% from a year ago and up at a 3.3% annual rate in the past two years. For comparison, the average annual growth for nominal GDP is 3.0% in the past ten years and 4.2% in the past twenty years. In other words, we're in the normal range for growth in nominal GDP, but short-term interest rates remain far below normal. Right now, we're estimating real GDP to grow about 1.0% at an annual rate in the first quarter. Yet, like last year, real GDP growth should rebound in Q2 and beyond. In other news this morning, new claims for unemployment insurance declined 3,000 last week to 258,000. Continuing claims rose 65,000 to 2.05 million. Plugging these figures into our models suggests another month of solid job growth in March. Meanwhile, the Richmond Fed index, a measure of mid-Atlantic factory sentiment, increased to +22 in March from +17 in February. On the housing front, the national Case-Shiller index, which measures home prices, increased 0.6% in January and is up 5.9% from a year ago. Price gains in the past 12 months have been led by Seattle and Portland, with the slowest gains in New York City and Cleveland. Pending home sales, which are contracts on existing homes, increased 5.5% in February, suggesting a gain in closings on existing homes in March.

4th Quarter GDP *Seasonally Adjusted Annual Rates*	Q4-16	Q3-16	Q2-16	Q1-16	4-Quarter Change
Real GDP	**2.1%**	3.5%	1.4%	0.8%	2.0%
GDP Price Index	**2.1%**	1.4%	2.3%	0.5%	1.6%
Nominal GDP	**4.2%**	5.0%	3.7%	1.3%	3.5%
PCE	**3.5%**	3.0%	4.3%	1.6%	3.1%
Business Investment	**0.9%**	1.4%	1.0%	-3.4%	-0.1%
Structures	**-1.9%**	12.0%	-2.1%	0.1%	1.9%
Equipment	**2.0%**	-4.5%	-3.0%	-9.5%	-3.8%
Intellectual Property	**1.3%**	3.2%	9.0%	3.8%	4.3%
Contributions to GDP Growth (p.pts.)	**Q4-16**	**Q3-16**	**Q2-16**	**Q1-16**	**4Q Avg.**
PCE	**2.4**	2.0	2.9	1.1	2.1
Business Investment	**0.1**	0.2	0.1	-0.4	0.0
Residential Investment	**0.4**	-0.2	-0.3	0.3	0.0
Inventories	**1.0**	0.5	-1.2	-0.4	0.0
Government	**0.0**	0.1	-0.3	0.3	0.0
Net Exports	**-1.8**	0.9	0.2	0.0	-0.2