June 29, 2017 • 630.517.7756 • www.ftportfolios.com

1st Quarter GDP (Final)

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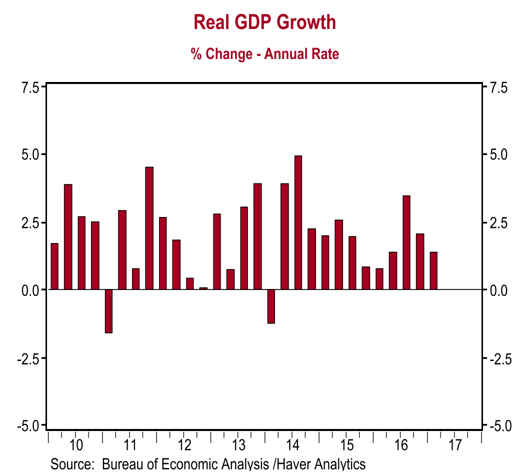
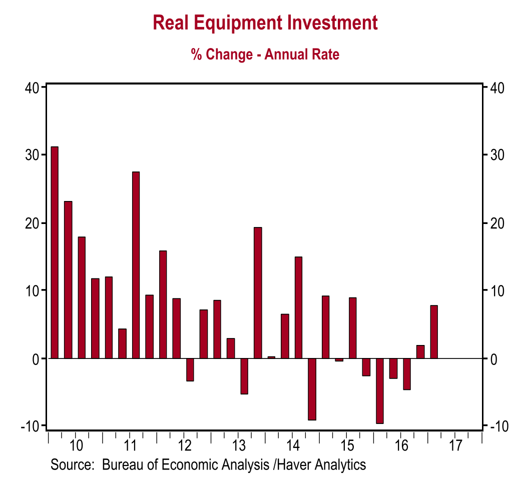
- Real GDP growth in Q1 was revised up to a 1.4% annual rate versus a prior estimate of 1.2% and original estimate of 0.7%. The consensus expected 1.2%.
- The largest upward revisions were for consumer spending on services and net exports.
- The largest positive contributions to the real GDP growth rate in Q1 came from business investment, consumer spending, and home building. The weakest component of real GDP, by far, was inventories.
- The GDP price index was revised lower to a 1.9% annual rate. Nominal GDP growth – real GDP plus inflation – was unchanged from the prior estimate of 3.4%. Nominal GDP is up 4.1% versus a year ago.



Source: Bureau of Economic Analysis /Haver Analytics



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Implications: Today's "final" GDP report for the first quarter showed a faster pace of economic growth but lower corporate profits compared to prior readings. Real GDP grew at a 1.4% annual rate in Q1 versus last month's estimate of 1.2% and the initial reading of 0.7%. The upward revision was mostly due to faster growth in consumer spending on services, with smaller changes, both up and down, scattered among other sectors of the economy. Meanwhile, economy-wide corporate profits were revised downwardly by 0.4%, and now show a 2.3% decline in Q1 from Q4. In spite of the dip in Q1, profits are still up 3.3% from a year ago. This is in sharp contrast to S&P 500 earnings, which were up 14% in Q1 from a year ago. The government estimate of economy-wide profits was pulled lower by inventory valuations and foreign earnings. We use these earnings in our stock market models which continue to show the S&P 500 as undervalued. In addition, we think this measure of profits will turn upward in the quarters ahead. Moreover, an unusually large reduction in the value of inventories was also a headwind in Q1. But, in spite of the dip in Q1, profits are still up 3.3% from a year ago. In terms of monetary policy, nothing in today's report suggests we should change our forecast that the Federal Reserve will raise rates again in September and start reducing its balance sheet on October 1. Nominal GDP – real GDP growth plus inflation – grew at a 3.4% annual rate, the same pace as the average of the past two years, easily outpacing a short-term interest rate target of 1.00% to 1.25%. In other news this morning, initial jobless claims rose 2,000 to 244,000. Continuing claims rose 6,000 to 1.95 million. These figures suggest job creation of about 200,000 for June. In other recent news, the Richmond Fed index, a measure of mid-Atlantic factory sentiment, rose to +7 in June from +1 in May. On the housing front, the national Case-Shiller home price index rose 0.2% in April and is up 5.5% from a year ago, an acceleration from the 5.1% gain in the year ending in April 2016. Pending home sales, which are contracts on existing homes, slipped 0.8% in May after declining 1.7% in April. These figures suggest a small drop in existing home sales (which are counted at closing) in June, although sales compared to a year ago should remain in a rising trend.

1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-17	Q4-16	Q3-16	Q2-16	4-Quarter Change
Real GDP	1.4%	2.1%	3.5%	1.4%	2.1%
GDP Price Index	1.9%	2.1%	1.4%	2.3%	1.9%
Nominal GDP	3.4%	4.2%	5.0%	3.7%	4.1%
PCE	1.1%	3.5%	3.0%	4.3%	3.0%
Business Investment	10.4%	0.9%	1.4%	1.0%	3.3%
Structures	22.5%	-1.9%	12.0%	-2.1%	7.1%
Equipment	7.8%	2.0%	-4.5%	-3.0%	0.5%
Intellectual Property	6.4%	1.3%	3.2%	9.0%	4.9%
Contributions to GDP Growth (p.pts.)	**Q1-17**	**Q4-16**	**Q3-16**	**Q2-16**	**4Q Avg.**
PCE	0.8	2.4	2.0	2.9	2.0
Business Investment	1.2	0.1	0.2	0.1	0.4
Residential Investment	0.5	0.4	-0.2	-0.3	0.1
Inventories	-1.1	1.0	0.5	-1.2	-0.2
Government	-0.2	0.0	0.1	-0.3	-0.1
Net Exports	0.2	-1.8	0.9	0.2	-0.1