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Fourth Quarter GDP (Advance)

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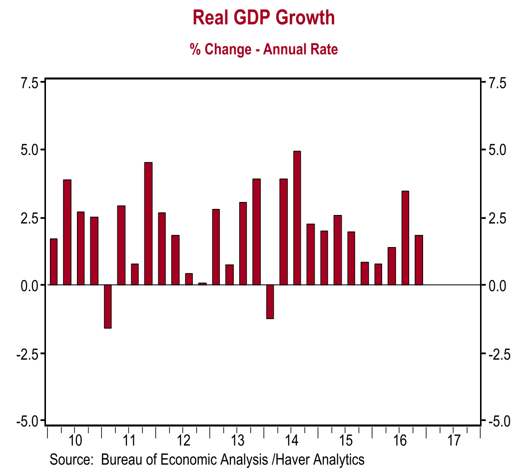
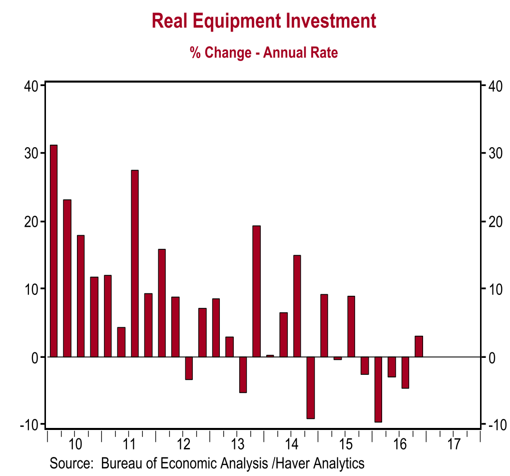
- The first estimate for Q4 real GDP growth is 1.9% at an annual rate, slightly below the consensus expected 2.2%. Real GDP is up 1.9% from a year ago.
- The largest positive contributions to the Q4 real GDP growth rate were consumer spending and inventories. The largest drag was net exports.
- Combined, personal consumption, business investment, and home building were up at a 2.8% annual rate in Q4 and 2.4% in the past year.
- The GDP price index rose 2.1% in Q4 and is up 1.6% from a year ago. Nominal GDP – real GDP plus inflation – rose at a 4.0% rate in Q4, is up 3.5% from a year ago, and up at a 3.2% annual rate from two years ago.

Implications: Today's GDP report was a fitting last report for the Obama Administration, with real GDP growing at a 1.9% annual rate in Q4, up 1.9% from a year ago and up at a 1.9% annual rate in the past two years. That's right in-line with the 2.1% annual growth rate since mid-2009 when the Great Recession ended. In other words, the economic recovery remained a Plow Horse through at least the end of 2016. However, the details of today's report were better than the headline. Consumer spending, business investment, and home building – what we call "core" GDP – grew in Q4 at a combined annual rate of 2.8% and is up at a 2.6% rate in the past two years. The big problem in Q4 was that net exports were a huge drag on real GDP after being a positive for growth in the prior two quarters. We anticipate an acceleration of growth from a Plow Horse pace if, and when, the Trump Administration follows through on pledges to cut tax rates, cut spending, replace Obamacare, and cut business regulations, particularly on building-out energy infrastructure. By contrast to the 2.1% trend of the past seven and a half years, at the same points after the recessions of 1981-82 and 1990-91, the economy had grown at average annual rates of 4.4% and 3.6%, respectively. Although the labor force has been growing and will continue to grow more slowly than during those prior long economic expansions, the implementation of new technologies like 3D-printing can lift productivity growth as well. In turn, faster growth would justify more interest rate increases by the Federal Reserve, which now plans on making three 25 basis point rate hikes later this year. But even today's figures support higher rates. Nominal GDP – real GDP growth plus inflation – rose at a 4% annual rate in Q4 and is up 3.2% in the past two years, much higher than the 0.5% - 0.75% target range for short-term rates.





4th Quarter GDP *Seasonally Adjusted Annual Rates*	***Q4-16***	***Q3-16***	***Q2-16***	***Q1-16***	***4-Quarter Change***
Real GDP	**1.9%**	3.5%	1.4%	0.8%	1.9%
GDP Price Index	**2.1%**	1.4%	2.3%	0.5%	1.6%
Nominal GDP	**4.0%**	5.0%	3.7%	1.3%	3.5%
PCE	**2.5%**	3.0%	4.3%	1.6%	2.8%
Business Investment	**2.4%**	1.4%	1.0%	-3.4%	0.3%
Structures	**-4.9%**	12.0%	-2.1%	0.1%	1.1%
Equipment	**3.1%**	-4.5%	-3.0%	-9.5%	-3.6%
Intellectual Property	**6.4%**	3.2%	9.0%	3.8%	5.6%
Contributions to GDP Growth (p.pts.)	**Q4-16**	**Q3-16**	**Q2-16**	**Q1-16**	**4Q Avg.**
PCE	**1.7**	2.0	2.9	1.1	1.9
Business Investment	**0.3**	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	**0.2**	0.1	-0.3	0.3	0.1
Net Exports	**-1.7**	0.9	0.2	0.0	-0.2

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