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1st Quarter GDP (Preliminary)

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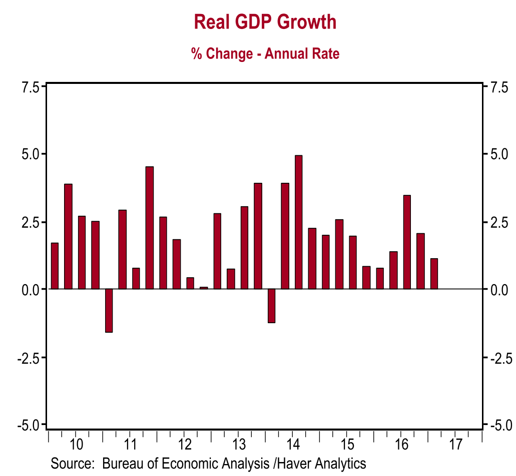
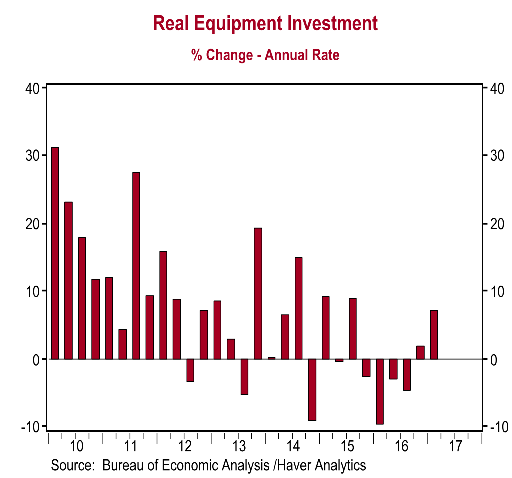
- Real GDP was revised up to a 1.2% annual rate in Q1 from a prior estimate of 0.7%. The consensus expected 0.9%.
- The largest upward revisions were for personal consumption and business investment in intellectual property and structures.
- The largest positive contributions to the real GDP growth rate in Q1 were business investment and home building. The weakest component was inventories.
- The GDP price index was revised slightly lower to a 2.2% annual rate. Nominal GDP growth – real GDP plus inflation – was revised higher to a 3.4% annual rate from a prior estimate of 3.0%.

Implications: Another quarter, another Plow Horse report. "Real" (inflation-adjusted) GDP grew at a 1.2% annual rate in the first quarter, an upward revision from the previous estimate of 0.7%. Most of the upward revision was due to consumer spending as well as business investment in intellectual property and structures, while inventories were revised down. 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 until policymakers in Washington, DC start cutting tax rates, restraining spending, and moving toward a free market in health care. 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 2.6% annual rate. The brightest spot in today's report was that business fixed investment grew at an 11.4% annual rate in Q1, the fastest pace in five years. The most disappointing news was that economy-wide corporate profits slipped 1.9% in Q1. However, they're up 3.7% from a year ago and much of the weakness in Q1 was due to an unusually large reduction in the value of inventories. As a result, we expect this measure of profits to accelerate in the year ahead. In terms of monetary policy, nothing in today's report should prevent the Federal Reserve from raising rates again in June. Nominal GDP (real growth plus inflation) was revised up to a 3.4% annual growth rate in Q1 from a prior estimate of 3.0%. Nominal GDP is up 4.1% from a year ago and up at a 3.4% 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	Q1-17	Q4-16	Q3-16	Q2-16	4-Quarter Change
Real GDP	**1.2%**	2.1%	3.5%	1.4%	2.0%
GDP Price Index	**2.2%**	2.1%	1.4%	2.3%	2.0%
Nominal GDP	**3.4%**	4.2%	5.0%	3.7%	4.1%
PCE	**0.6%**	3.5%	3.0%	4.3%	2.8%
Business Investment	**11.4%**	0.9%	1.4%	1.0%	3.6%
Structures	**28.3%**	-1.9%	12.0%	-2.1%	8.4%
Equipment	**7.2%**	2.0%	-4.5%	-3.0%	0.3%
Intellectual Property	**6.7%**	1.3%	3.2%	9.0%	5.0%
Contributions to GDP Growth (p.pts.)	**Q1-17**	**Q4-16**	**Q3-16**	**Q2-16**	**4Q Avg.**
PCE	**0.4**	2.4	2.0	2.9	1.9
Business Investment	**1.3**	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	**0.1**	-1.8	0.9	0.2	-0.2