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1st Quarter GDP (Final)

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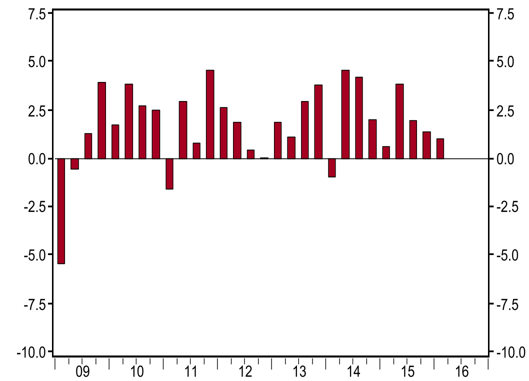
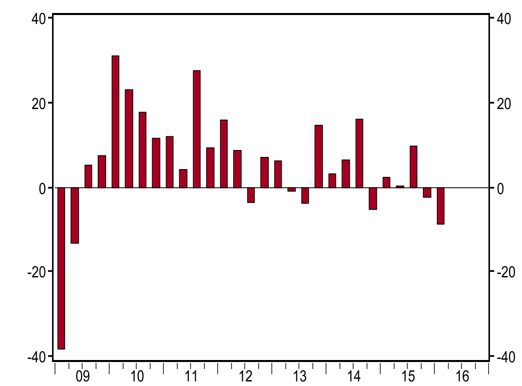
- Real GDP growth in Q1 was revised up to a 1.1% annual rate versus a prior estimate of 0.8% and original estimate of 0.5%. The consensus expected 1.0%.
- The largest upward revisions were for net exports and business investment in intellectual property.
- The largest positive contributions to the real GDP growth rate in Q1 came from consumer spending and home building. The weakest component of real GDP was business investment.
- The GDP price index was revised slightly lower to a 0.4% annual rate. Nominal GDP growth – real GDP plus inflation – was unchanged from the prior estimate of 1.4%. Nominal GDP is up 3.3% versus a year ago.

Real GDP Growth
% Change - Annual Rate



Source: Bureau of Economic Analysis /Haver Analytics

Real Equipment Investment
% Change - Annual Rate



Source: Bureau of Economic Analysis /Haver Analytics

Implications: Today's final GDP report for the first quarter showed a slightly faster pace of growth and higher corporate profits compared to prior readings. Real GDP grew at a 1.1% annual rate in Q1 versus last month's estimate of 0.8% and the initial Q1 reading of 0.5% annualized growth. However, "final" never really means "final" when it comes to government reports – it will be revised in the years ahead. This includes the annual "benchmark" revisions at the end of July, when the government will, once again, try to fix the seasonal distortions that have been buffeting the GDP data the past several years, where they underestimate growth in Q1 and overestimate growth in the middle quarters of the year. Just like last year, we expect growth in Q2 and Q3 to rebound from Q1. With just days left in the second quarter, it looks like the economy grew at around a 2% annual rate in Q2. Today's report also provided a second look at overall corporate profits, and just like real GDP, the headline was revised higher. Corporate profits rose 1.8% in Q1, better than the originally reported 0.3% gain. Although corporate profits are down 4.3% from a year ago, this movement has been led by the petroleum and coal industry and we expect these profits to rebound. Despite continued GDP growth, with unemployment under 5%, core inflation near 2%, and accelerating wage growth, the Fed keeps allowing market fluctuations and global factors to spook it away from taking the next step towards raising rates. This is a mistake that could cost the economy over time, just like low interest rates eventually caused problems in the housing sector in the previous decade. Nominal GDP growth – real GDP growth plus inflation – is up 3.3% from a year ago and up 3.6% annualized in the past two years, much too high for a short-term interest rate near zero. In other news this morning, the national Case-Shiller price index increased 0.1% in April and is up 5.0% in the past year, an acceleration from the 4.3% gain in the year ending in April 2015. Price gains in the past twelve months have been led by Portland, Seattle, and Denver. On the manufacturing front, the Richmond Fed index, which measures mid-Atlantic factory sentiment, fell to -7 in June from -1 in May, signaling a pullback in sentiment. We expect the national ISM index to be roughly unchanged for June, remaining above 50, signaling continued modest growth.

1st Quarter GDP *Seasonally Adjusted Annual Rates*	Q1-16	Q4-15	Q3-15	Q2-15	4-Quarter Change
Real GDP	**1.1%**	1.4%	2.0%	3.9%	2.1%
GDP Price Index	**0.4%**	0.9%	1.3%	2.1%	1.2%
Nominal GDP	**1.4%**	2.3%	3.3%	6.1%	3.3%
PCE	**1.5%**	2.4%	3.0%	3.6%	2.6%
Business Investment	**-4.5%**	-2.1%	2.6%	4.1%	0.0%
Structures	**-7.9%**	-5.1%	-7.2%	6.3%	-3.6%
Equipment	**-8.7%**	-2.1%	9.9%	0.3%	-0.3%
Intellectual Property	**4.4%**	-0.1%	-0.8%	8.3%	2.9%
Contributions to GDP Growth (p.pts.)	**Q1-16**	**Q4-15**	**Q3-15**	**Q2-15**	**4Q Avg.**
PCE	**1.0**	1.7	2.0	2.4	1.8
Business Investment	**-0.6**	-0.3	0.3	0.5	0.0
Residential Investment	**0.5**	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	**0.1**	-0.1	-0.3	0.2	0.0