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# 4th Quarter GDP (Preliminary)

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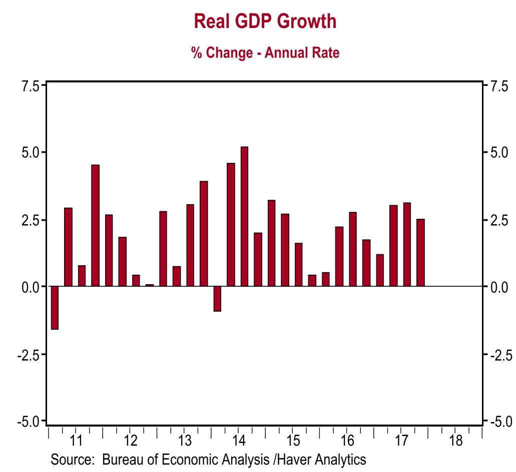
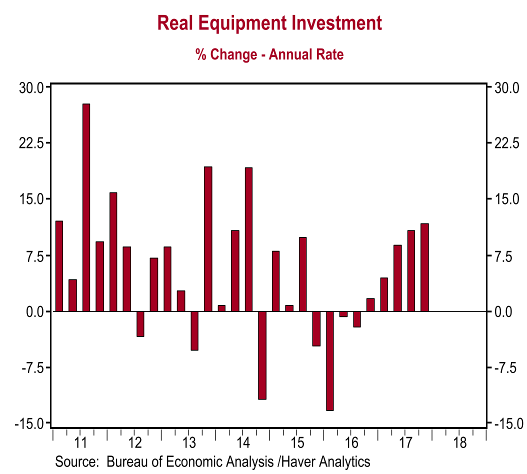
- Real GDP was revised to a 2.5% annual rate in Q4 from a prior estimate of 2.6%, matching consensus expectations.
- The largest upward revision was for residential investment. Inventories, business investment and government purchases were all revised slightly lower.
- The largest positive contribution to the real GDP growth rate in Q4 was personal consumption. The weakest component, by far, was net exports.
- The GDP price index was revised down slightly to a 2.3% annual growth rate from a prior estimate of 2.4%. Nominal GDP growth – real GDP plus inflation – was revised down to a 4.9% annual rate from a prior estimate of 5.0%.




**Implications:** Not much "new" news on GDP. The second reading for real GDP growth was revised ever so slightly lower to a 2.5% annual rate for the fourth quarter, matching consensus expectations. An upward revision to residential investment was not enough to offset slight downward revisions to inventories, government purchases, and business investment. The bottom line is that today's report should not change anyone's impression about the economy. We expect real GDP to grow at a 3%+ rate in 2018, which would be the first year that's happened since 2005. In particular, the tax cuts enacted in late December and the deregulation coming from Washington, DC are going to help spur faster growth. Meanwhile, today's report reminds us that the Federal Reserve is behind the curve. Nominal GDP growth (real growth plus inflation), was revised slightly lower to a 4.9% growth rate in Q4 versus a prior estimate of 5.0%. Still, nominal GDP grew 4.4% in 2017 and is up at a 3.9% annual rate in the past two years. All of these are much higher than the Fed's current target for short-term rates of 1.375%. As recently as December, the median projection from the Fed was three rate hikes in 2018. We think the next revision to those projections (due March 21) will show a split between three and four. At present, the federal funds futures market has about 37% odds of four rate hikes or more. In the end, we think the Fed will raise rates four times this year, 25 basis points each time. In other news this morning, the Chicago PMI, which measures manufacturing sentiment in that region, declined to a still solid 61.9 in February from 65.7 in January. As a result, we expect a slight decline in tomorrow's national ISM Manufacturing report, but also expect that report to keep showing robust growth in the factory sector. In housing news this morning, pending home sales, which are contracts on existing homes, declined 4.7% in January after a 0.5% gain in December. These reports suggest existing home sales, which are counted at closing, could be lower in February.

| 4th Quarter GDP<br>Seasonally Adjusted Annual Rates | Q4-17 | Q3-17 | Q2-17 | Q1-17 | 4-Quarter Change |
|---|---|---|---|---|---|
| Real GDP | **2.5%** | 3.2% | 3.1% | 1.2% | 2.5% |
| GDP Price Index | **2.3%** | 2.1% | 1.0% | 2.0% | 1.9% |
| Nominal GDP | **4.9%** | 5.3% | 4.1% | 3.3% | 4.4% |
| PCE | **3.8%** | 2.2% | 3.3% | 1.9% | 2.8% |
| Business Investment | **6.6%** | 4.7% | 6.7% | 7.1% | 6.3% |
| Structures | **2.5%** | -7.0% | 7.0% | 14.8% | 4.0% |
| Equipment | **11.8%** | 10.8% | 8.8% | 4.4% | 8.9% |
| Intellectual Property | **2.5%** | 5.2% | 3.7% | 5.8% | 4.3% |
| **Contributions to GDP Growth (p.pts.)** | **Q4-17** | **Q3-17** | **Q2-17** | **Q1-17** | **4Q Avg.** |
| PCE | **2.6** | 1.5 | 2.2 | 1.3 | 1.9 |
| Business Investment | **0.8** | 0.6 | 0.8 | 0.9 | 0.8 |
| Residential Investment | **0.5** | -0.2 | -0.3 | 0.4 | 0.1 |
| Inventories | **-0.7** | 0.8 | 0.1 | -1.5 | -0.3 |
| Government | **0.5** | 0.1 | 0.0 | -0.1 | 0.1 |
| Net Exports | **-1.1** | 0.4 | 0.2 | 0.2 | -0.1 |