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4th Quarter GDP (Final)

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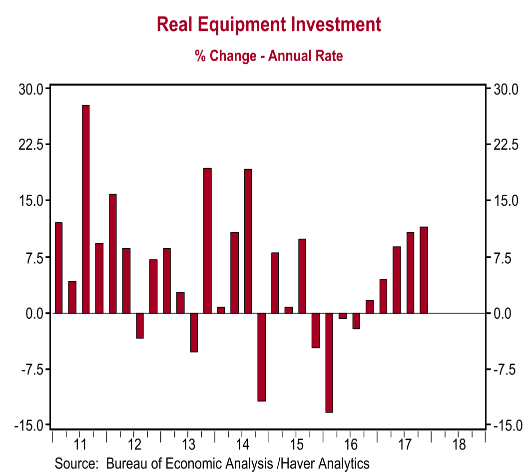
- Real GDP growth in Q4 was revised to a 2.9% annual rate from a prior estimate of 2.5%, beating the consensus expected 2.7%.
- The upward revision was due to higher personal consumption and inventories. Other categories were either unchanged or changed only slightly.
- The largest positive contributions to the real GDP growth rate in Q4 came from consumer spending and business investment. The weakest component of real GDP was net exports.
- The GDP price index was unchanged at a 2.3% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 5.3% annual rate versus a prior estimate of 4.9%. Nominal GDP is up 4.5% versus a year ago.



Implications: The final report on fourth quarter GDP came in stronger than expected. Real GDP growth was revised up to a 2.9% growth rate from last month's estimate of 2.5%, due to upward revisions to both consumer spending and inventories. All other categories were either unchanged, or changed very slightly. Today we also got our first look at economy-wide Q4 corporate profits, which were down 0.1% compared to the third quarter but are up 2.7% from a year ago. The small decline was due to profits from overseas operations. Plugging the new profits data into our capitalized profits model suggests US equities remain cheap, not only at today's interest rates but even using a 10-year Treasury yield of 3.5%. And while corporate profits data are reported with a lag, we expect that tax reform and regulatory relief will be a tailwind for profits in the quarters ahead. Expect a new all-time record high for profits in the first half of 2018. In terms of monetary policy, the Fed should see today's report as a confirmation that they made the right decision to raise short-term rates earlier this month. Nominal GDP growth (real growth plus inflation) was revised up to a healthy 5.3% annual rate in Q4 from a prior estimate of 4.9%, is up 4.5% in the past year, and up at a 3.9% annual rate in the past two years, leaving the Fed plenty of room for more rate hikes this year. For comparison, the average annual growth for nominal GDP is 3.0% in the past ten years and 4.1% in the past twenty years. In other words, we're in the normal range for growth in nominal GDP, but short-term interest rates remain far below normal. Right now, we're estimating real GDP to grow about 2% at an annual rate in the first quarter. Yet, like last year, real GDP growth should rebound in Q2 and beyond. In manufacturing news yesterday, the Richmond Fed index, a measure of mid-Atlantic factory sentiment, declined to a still healthy 15 in March from 28 in February. Also yesterday, the national Case-Shiller index said home prices were up 0.5% in January and were up 6.2% for the twelve months ending January 2018, an acceleration from the 5.6% gain in the twelve months ending January 2017. In the last year, price gains were led by Seattle and Las Vegas.

4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-17	Q3-17	Q2-17	Q1-17	4-Quarter Change
Real GDP	**2.9%**	3.2%	3.1%	1.2%	2.6%
GDP Price Index	**2.3%**	2.1%	1.0%	2.0%	1.9%
Nominal GDP	**5.3%**	5.3%	4.1%	3.3%	4.5%
PCE	**4.0%**	2.2%	3.3%	1.9%	2.8%
Business Investment	**6.8%**	4.7%	6.7%	7.1%	6.3%
Structures	**6.3%**	-7.0%	7.0%	14.8%	5.0%
Equipment	**11.5%**	10.8%	8.8%	4.4%	8.9%
Intellectual Property	**0.9%**	5.2%	3.7%	5.8%	3.9%
Contributions to GDP Growth (p.pts.)	**Q4-17**	**Q3-17**	**Q2-17**	**Q1-17**	**4Q Avg.**
PCE	**2.8**	1.5	2.2	1.3	2.0
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	**-0.5**	0.8	0.1	-1.5	-0.3
Government	**0.5**	0.1	0.0	-0.1	0.1
Net Exports	**-1.2**	0.4	0.2	0.2	-0.1