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1st Quarter GDP (Final)

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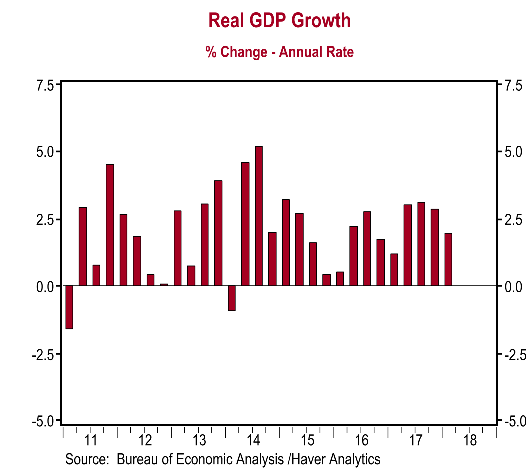
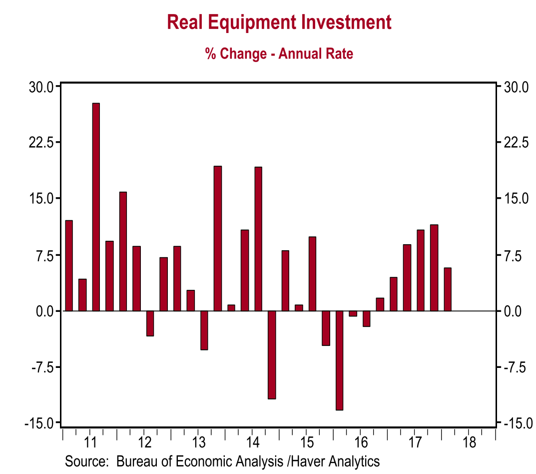
- Real GDP growth in Q1 was revised to a 2.0% annual rate from a prior estimate of 2.2%, coming in slightly below the consensus expected 2.2%.
- The downward revision was due to smaller net exports and inventories, along with a smaller gain in personal consumption. Business investment was revised slightly higher.
- The largest positive contributions to the real GDP growth rate in Q1 came from business investment and consumer spending.
- The GDP price index was revised higher to a 2.2% annual rate. Nominal GDP growth – real GDP plus inflation – was unchanged from the prior estimate of 4.2%. Nominal GDP is up 4.7% versus a year ago.

Implications: Today's "final" GDP report for the first quarter showed a slower pace of economic growth but higher corporate profits compared to prior readings. Real GDP grew at a 2.0% annual rate in Q1 versus last month's estimate of 2.2% and the initial reading of 2.3%. The downward revision was due to a smaller inventory build than originally expected, lower net exports, and slower growth in consumer spending on services. Business investment was revised higher, growing at a 10.4% annual rate, the fastest growth since Q3 2014. Meanwhile, economy-wide corporate profits were revised up by 2.4%, and now show a 1.8% gain in Q1 from Q4. Corporate profits are up 6.8% from a year ago. 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. In terms of monetary policy, nothing in today's report suggests we should change our forecast that the Federal Reserve will raise rates again in September and December, and four times in 2019. Nominal GDP – real GDP growth plus inflation – grew at a 4.2% annual rate, easily outpacing a short-term interest rate target of 1.75% to 2.00%. The Fed is nowhere near tight and needs to continue to raise rates. In other news this morning, initial jobless claims rose 9,000 to 227,000. Continuing claims declined 21,000 to 1.71 million. These figures suggest another month of solid job creation in June.





1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-18	Q4-17	Q3-17	Q2-17	4-Quarter Change
Real GDP	2.0%	2.9%	3.2%	3.1%	2.8%
GDP Price Index	2.2%	2.3%	2.1%	1.0%	1.9%
Nominal GDP	4.2%	5.3%	5.3%	4.1%	4.7%
PCE	0.9%	4.0%	2.2%	3.3%	2.6%
Business Investment	10.4%	6.8%	4.7%	6.7%	7.1%
Structures	16.2%	6.3%	-7.0%	7.0%	5.3%
Equipment	5.8%	11.5%	10.8%	8.8%	9.2%
Intellectual Property	13.1%	0.9%	5.2%	3.7%	5.6%
Contributions to GDP Growth (p.pts.)	**Q1-18**	**Q4-17**	**Q3-17**	**Q2-17**	**4Q Avg.**
PCE	0.6	2.8	1.5	2.2	1.8
Business Investment	1.3	0.8	0.6	0.8	0.9
Residential Investment	0.0	0.5	-0.2	-0.3	0.0
Inventories	0.0	-0.5	0.8	0.1	0.1
Government	0.2	0.5	0.1	0.0	0.2
Net Exports	0.0	-1.2	0.4	0.2	-0.2