Fourth Quarter 2016 GDP 2nd Estimate

Good day, I am Jamie Sumner, chief analyst at Seifried&Brew. For this week's webcast we wanted to review the second estimate of the ***fourth quarter 2016 GDP*** (4Q16E GDP) release that came out last week. As you probably know, [Slide 2] the fourth quarter estimate came out at 1.9%, which is the same as the advanced release back in January. So, no change in the overall rate of economic growth, however there were some subtle changes with inside the underling number. That is, the different components that contribute to this overall growth. So let's take a couple of minutes and review each of these components [Slide 3].

As you know, there are four main components inside GDP. ***Consumer Spending, Investments, Government Spending*** and the net of ***exports minus imports***. What we like to do when we see additional releases of the GDP is compare the changes between the two releases. Here on [Slide 3], you can see last time the GDP was released, which would be the Advanced, which is the first release of the fourth quarter.

You can see that the ***Consumer Spending*** segment contributed about 170 basis points (bps) to the overall GDP growth of 1.9%. Now, when we look at the second release you can see that the contribution increased to 205 bps. So we had a positive benefit from the Consumer Spending segment by about 35 bps which is pretty substantial. When you look at the two main components in the Consumer Spending segment, which would be overall goods versus services, we saw that goods contributed an additional 12 bps and services 23 bps. So the biggest component in there was that services contributed that additional 23 bps so that's a positive as we look into the first quarter of 2017.

Now, when we look at the ***Investment*** portion, (and this is both business investments as well as residential fixed investments), we can see that it actually went down. We had the advanced estimate come out at 1.67% and the second release came out at 1.45%. Now with inside of this there wasn't any big indicator as far as which item kind of dropped significantly. Everything pretty much came down a little bit which then contributed to the overall 22 bps decline in here. If we look at the inventories number which tends to be pretty volatile, that only came down about 4 bps. So inventory wasn't a big contributor to the aforementioned 22 bps reduction. But we can see the decline almost offsetting the benefit (35 bps increase) we saw with inside the Consumer spending segment.

So then we come down to the ***Government*** portion with inside of GDP and we can see also that deteriorated a little bit between the two estimates (Advanced vs. Second) that came out. The advanced estimate came in at 21 bps as a contribution to the overall GDP growth, and then the second release coming in at 6 bps, so pulling off about 15 bps of growth with inside the government sector. Now that pull off came from the state and municipal spending throughout the quarter, which was down pretty much about 28 bps. We saw the different make up with inside of the federal spending. So we see that the state and local government kind of pulling off on their spending with inside the second release in here.

And then we had net ***export-imports*** staying exactly the same at -1.7% as a contribution, detracting from overall GDP growth. But between the two releases there was no change in there.

So overall we see a positive impact from the consumer side, which is what we anticipated, (because of the revised retail sales number coming out being revised up) and that's a positive. But on the business side we are seeing a little bit of softening there and then inside that government spending also a little bit of softening. We had a lot of numbers that came out last week, and this is just one of them so we wanted to review it. Next week we'll take

800 445 4430
www.seifriedbrew.com

another look at a couple of the items that came out with inside the economic news last week so everyone have a great week and we'll see you back here next week.

Materials set forth above are based on transcripts/slides presented from the Seifried & Brew Briefing transmitted on the above date. For further reference please click on *http://seifriedbrew.com/briefings.html*

800 445 4430
www.seifriedbrew.com