First Trust DATAWATCH

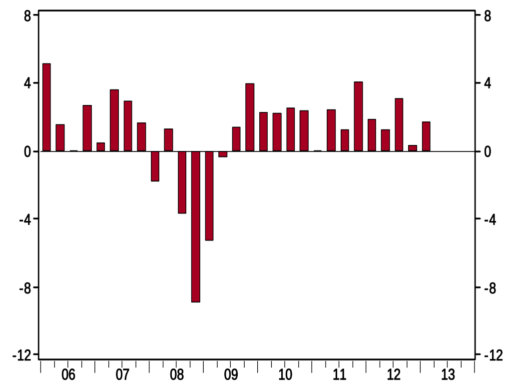
June 26, 2013 • 630.517.7756 • www.ftportfolios.com

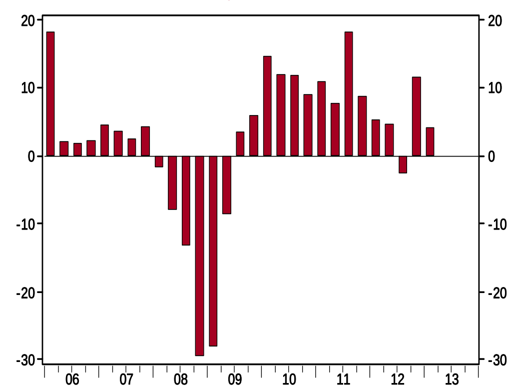
1st Quarter GDP (Final)

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Real GDP growth in Q1 was revised down to a 1.8% annual rate versus a prior estimate and consensus expected 2.4%.
- The largest negative revision was for consumer spending on services. Commercial construction was also revised down, while net exports were revised higher.
- The largest positive contributions to the real GDP growth rate in Q1 came from consumer spending and inventories. The weakest component of real GDP, by far, was government purchases.
- The GDP price index was revised higher to a 1.2% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised down to a 3.1% annual rate versus a prior estimate of 3.6%. Nominal GDP is up 3.3% versus a year ago.

Implications: As of the first quarter, the Plow Horse economy was still plodding along, no faster or slower than in the past couple of years. Real growth in the first quarter was revised down to a 1.8% annual rate, largely a result of downward revisions to personal consumption. Still, this growth rate is slightly above the 1.7% gain in real GDP in 2012 and we expect the upward trend in growth to continue. Despite downward revisions, real (inflation-adjusted) consumer spending was up at a 2.6% annual rate in Q1, the fastest pace since early 2010. Private-sector real GDP growth (real GDP growth excluding government purchases) was up at a 3.3% annual rate in Q1. Corporate profits were revised higher in Q1 and real gross domestic income – which includes worker compensation and corporate profits – climbed at a 2.5% rate in Q1 and is up 2.2% in the past year. Today's data do not suggest the Federal Reserve needs to stay loose for longer. Nominal GDP (real growth plus inflation) is up 3.3% from a year ago and up at a 3.9% annual rate in the past two years, no different than the average over the past ten years. In other words, right now the Federal Reserve is keeping interest rates near zero and continuing to rapidly expand its balance sheet at the same time that nominal GDP growth appears quite normal. As a result, we continue to see gradually rising inflation over at least the next few years. Looking at the data so far for Q2 it looks like the economy has picked up a little steam, with real GDP growing at a roughly 2.5% annual rate. In particular, business investment and government purchases should both contribute more to real GDP growth in Q2 than in Q1.





1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-13	Q4-12	Q3-12	Q2-12	4-Quarter Change
Real GDP	**1.8%**	0.4%	3.1%	1.3%	1.6%
GDP Price Index	**1.2%**	1.0%	2.7%	1.6%	1.6%
Nominal GDP	**3.1%**	1.4%	5.9%	2.8%	3.3%
PCE	**2.6%**	1.8%	1.6%	1.5%	1.9%
Business Investment	**0.4%**	13.1%	-1.8%	3.6%	3.7%
Structures	**-8.3%**	16.7%	0.0%	0.6%	1.9%
Equipment and Software	**4.1%**	11.8%	-2.6%	4.8%	4.4%
Contributions to GDP Growth (p.pts.)	**Q1-13**	**Q4-12**	**Q3-12**	**Q2-12**	**4Q Avg.**
PCE	**1.8**	1.3	1.1	1.1	1.3
Business Investment	**0.0**	1.3	-0.2	0.4	0.4
Residential Investment	**0.3**	0.4	0.3	0.2	0.3
Inventories	**0.6**	-1.5	0.7	-0.5	-0.2
Government	**-0.9**	-1.4	0.8	-0.1	-0.4
Net Exports	**-0.1**	0.3	0.4	0.2	0.2

Source: Commerce Department