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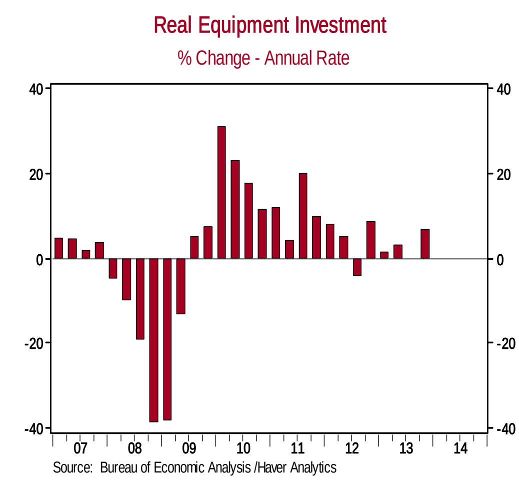
Fourth Quarter GDP (Advance)

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

- The first estimate for Q4 real GDP growth is 3.2% at an annual rate, exactly matching consensus expectations. Real GDP is up 2.7% from a year ago.
- The largest positive contributions to the Q4 real GDP growth rate were consumer spending and net exports. The largest drag, by far, was government purchases.
- Combined, personal consumption, business investment, and home building were up at a 2.9% annual rate in Q4 and are up 2.4% in the past year.
- The GDP price index increased at a 1.3% annual rate in Q4. Nominal GDP – real GDP plus inflation – rose at a 4.6% rate in Q4 and is up 4.2% from a year ago and up at a 4.0% annual rate from two years ago.

Implications: Real GDP growth came in at a solid 3.2% annual rate in Q4, matching consensus expectations. That brings the growth rate for the second half of 2013 to 3.7%, a far cry from the doom and gloom scenarios painted by Keynesian economists and analysts who said the threat of a government shutdown, an actual shutdown, and wrangling about the federal debt limit were going to slow the economy. Instead, real GDP was up 2.7% in 2013 (Q4/Q4). Although far from an economic boom, it's the fastest pace since 2010. The best news in today's report was that government purchases were a large drag on growth in Q4. Excluding government, real GDP grew at a 5.1% annual rate in Q4, following a 5% growth rate in Q3. In other words, as the government shrank, the private sector grew faster. The one caveat to keep in mind is that much of the acceleration in 2013 came from inventories. Real final sales (real GDP excluding inventories) grew at a 1.9% rate in 2013 versus the 2.7% pace for overall real GDP. We think this means companies anticipate faster growth in final sales in 2014, which should offset a potential drag from slower inventory accumulation. On net, we still anticipate real GDP growth of about 3% in 2014. Today's report should also give the Federal Reserve something to think about. Nominal GDP – real GDP plus inflation – rose at a 4.6% rate in Q4 and is up at a 4% annual rate in the past two years, not much below the average of 4.5% in the past twenty years. This is too fast for a short-term interest rate target near zero and suggests the Fed could taper quantitative easing more quickly without hurting the economy. In other news today, new claims for unemployment insurance increased 19,000 last week to 348,000. Continuing claims for regular state benefits fell 16,000 to 2.99 million. Plugging these figures into our payroll models generates an (early) forecast of 130,000 for January. We would not read much into a second straight month of tepid payroll growth. These figures are volatile from month to month, subject to substantial revisions, and are probably being held down by unusually bad winter weather. Much faster payroll growth will return by the Spring.



4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-13	Q3-13	Q2-13	Q1-13	4-Quarter Change
Real GDP	3.2%	4.1%	2.5%	1.1%	2.7%
GDP Price Index	1.3%	2.0%	0.6%	1.3%	1.3%
Nominal GDP	4.6%	6.2%	3.1%	2.8%	4.2%
PCE	3.3%	2.0%	1.8%	2.3%	2.3%
Business Investment	3.8%	4.8%	4.7%	-4.6%	2.1%
Structures	-1.3%	13.4%	17.6%	-25.7%	-0.5%
Equipment	6.9%	0.2%	3.2%	1.6%	3.0%
Intellectual Property	3.2%	5.7%	-1.5%	3.8%	2.8%
Contributions to GDP Growth (p.pts.)	**Q4-13**	**Q3-13**	**Q2-13**	**Q1-13**	**4Q Avg.**
PCE	2.3	1.4	1.2	1.5	1.6
Business Investment	0.5	0.6	0.6	-0.6	0.3
Residential Investment	-0.3	0.3	0.4	0.3	0.2
Inventories	0.4	1.7	0.4	0.9	0.9
Government	-0.9	0.1	-0.1	-0.8	-0.4
Net Exports	1.3	0.1	-0.1	-0.3	0.3