First Trust DATAWATCH

June 25, 2014 • 630.517.7756 • www.ftportfolios.com

1st Quarter GDP (Final)

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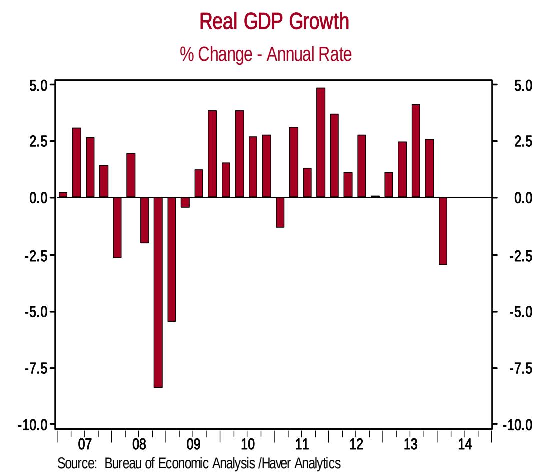
- Real GDP growth in Q1 was revised down to a -2.9% annual rate versus a prior estimate of -1.0% and a consensus expected -1.8%.

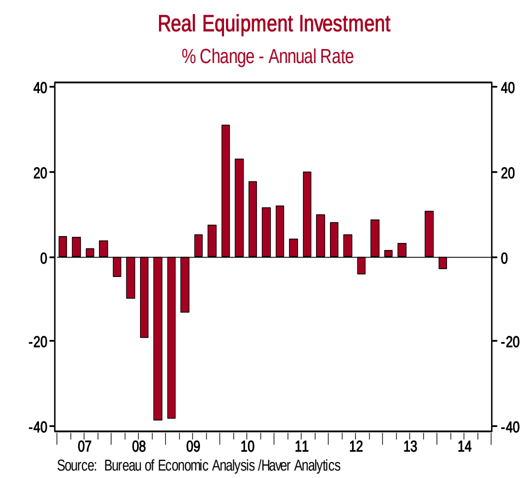
- The largest negative revision was for consumer spending on services. Net exports were also revised down. Other components of GDP were little changed.

- The largest positive contribution to the real GDP growth rate in Q1 came from consumer spending. The weakest components of real GDP, by far, were inventories and net exports.

- The GDP price index was unrevised at a 1.3% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised down to a -1.7% annual rate versus a prior estimate of 0.3%. Nominal GDP is up 2.9% versus a year ago.

Implications: Hard to get an uglier headline number than the -2.9% annual growth rate for real GDP in Q1. Excluding recessions (or immediately before or after), that figure is the worst on record going back to World War II. However, we are very confident this will be the exception. If the economy were back in recession, the unemployment rate would have increased and jobs would have declined; instead, unemployment was steady in Q1 (and has dropped in Q2) and payrolls grew at an average monthly rate of 190,000. So why the big drop in real GDP? Much of the US was slammed with unusually harsh winter weather in Q1. In addition, when the government grows so large, it's harder for the economy to absorb those events and keep growing. But so far in Q2 the data suggest a rebound back to solid economic growth, at around a 3% annual rate. Improvement in the labor market has accelerated, industrial production is growing rapidly, and auto sales have soared. To figure out the underlying trend in real GDP growth, we like to take out government purchases, trade, and inventories. What's left are final sales to private domestic purchasers, which increased at a 0.5% annual rate in Q1, is up 2.3% in the past year, and up at a 2.3% annual rate in the past two years. Corporate profits fell 9.1% in Q1. But remember, these numbers are based on IRS data, and the change in tax laws earlier this year regarding depreciation and expensing had a major effect. S&P reported profits were actually up in Q1 as was cash flow. As a result, we do not believe the drop in the government's measure of profits is a negative sign for equities. Today's data do not suggest the Federal Reserve needs to pull back from tapering. Nominal GDP (real growth plus inflation) fell at a 1.7% annual rate in Q1 but is still up 2.9% from a year ago and up at a 3% annual rate in the past two years. That's high enough to sustain not only an end to tapering but also higher short-term rates than the Fed is now targeting.





1st Quarter GDP *Seasonally Adjusted Annual Rates*	Q1-14	Q4-13	Q3-13	Q2-13	4-Quarter Change
Real GDP	-2.9%	2.6%	4.1%	2.5%	1.5%
GDP Price Index	1.3%	1.6%	2.0%	0.6%	1.4%
Nominal GDP	-1.7%	4.2%	6.2%	3.1%	2.9%
PCE	1.0%	3.3%	2.0%	1.8%	2.0%
Business Investment	-1.2%	5.7%	4.8%	4.7%	3.5%
Structures	-7.7%	-1.8%	13.4%	17.6%	4.9%
Equipment	-2.8%	10.9%	0.2%	3.2%	2.8%
Intellectual Property	6.3%	4.0%	5.7%	-1.5%	3.6%
Contributions to GDP Growth (p.pts.)	**Q1-14**	**Q4-13**	**Q3-13**	**Q2-13**	**4Q Avg.**
PCE	0.7	2.2	1.4	1.2	1.4
Business Investment	-0.1	0.7	0.6	0.6	0.4
Residential Investment	-0.1	-0.3	0.3	0.4	0.1
Inventories	-1.7	0.0	1.7	0.4	0.1
Government	-0.1	-1.0	0.1	-0.1	-0.3
Net Exports	-1.5	1.0	0.1	-0.1	-0.1