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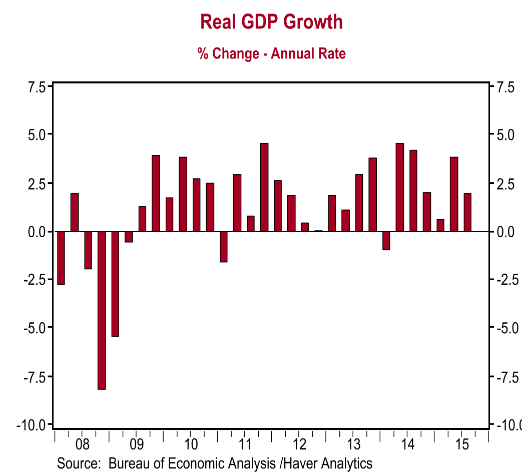
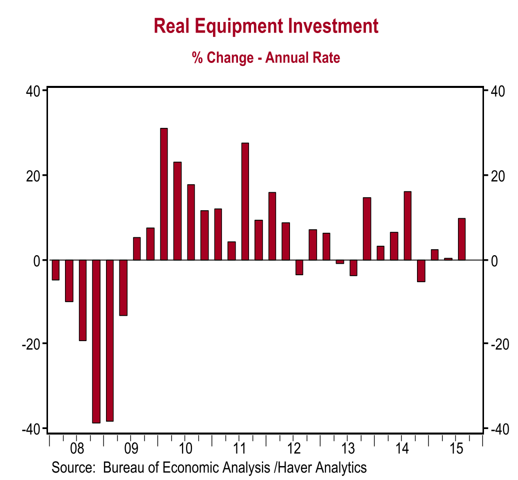
3rd Quarter GDP (Final)

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

- Real GDP growth in Q3 was revised to a 2.0% annual rate from a prior estimate of 2.1%, beating the consensus expected 1.9%.
- The slight downward revision was due to inventories. Other categories were either unchanged or changed only slightly.
- The largest positive contribution to the real GDP growth rate in Q3 came from consumer spending. The weakest component of real GDP was inventories.
- 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 3.3% annual rate versus a prior estimate of 3.4%. Nominal GDP is up 3.1% versus a year ago.

Implications: It doesn't get much more Plow Horse than this. Today's final GDP report for the third quarter showed real economic growth at a 2.0% annual rate, slightly better than consensus expectations, but lower than the 2.1% reading from a month ago. The good news is that the tick down in growth can all be attributed to lower inventories than previously estimated, which leaves a little more room for future growth. Also, business investment in equipment grew at the fastest pace in a year, despite being weighed down by fewer oil rigs and drilling equipment. Faster growth in equipment should help boost future productivity growth. The most negative news in today's report was that corporate profits were revised down and dropped 6.2% in Q3. Profits are now down 5.1% from a year ago and have been hovering in the same range since late 2011. Most of the drop in profits in the third quarter was due to earnings from abroad, likely held down by slow growth in other advanced economies and a stronger dollar. In spite of this news, today's report continues to flash green for the Federal Reserve to continue to raise rates in the coming year. Nominal GDP (real growth plus inflation) was revised down to a 3.3% annual growth rate in Q3 from a prior estimate of 3.4%. But nominal GDP is up 3.1% from a year ago and up at a 3.9% annual rate in the past two years. What this means is that a neutral federal funds rate is north of 2.5%. The Fed has a long way to go before monetary policy becomes even remotely restrictive.





3rd Quarter GDP *Seasonally Adjusted Annual Rates*	*Q3-15*	*Q2-15*	*Q1-15*	*Q4-14*	*4-Quarter Change*
Real GDP	**2.0%**	3.9%	0.6%	2.1%	2.1%
GDP Price Index	**1.3%**	2.1%	0.1%	0.1%	0.9%
Nominal GDP	**3.3%**	6.1%	0.8%	2.2%	3.1%
PCE	**3.0%**	3.6%	1.7%	4.3%	3.1%
Business Investment	**2.6%**	4.1%	1.6%	0.7%	2.2%
Structures	**-7.2%**	6.3%	-7.4%	4.2%	-1.2%
Equipment	**9.9%**	0.3%	2.3%	-4.9%	1.8%
Intellectual Property	**-0.8%**	8.3%	7.4%	6.9%	5.4%
Contributions to GDP Growth (p.pts.)	**Q3-15**	**Q2-15**	**Q1-15**	**Q4-14**	**4Q Avg.**
PCE	**2.0**	2.4	1.2	2.9	2.1
Business Investment	**0.3**	0.5	0.2	0.1	0.3
Residential Investment	**0.3**	0.3	0.3	0.3	0.3
Inventories	**-0.7**	0.0	0.9	0.0	0.0
Government	**0.3**	0.5	0.0	-0.3	0.1
Net Exports	**-0.3**	0.2	-1.9	-0.9	-0.7

Source: Commerce Department