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FIRST Trust ADVISORS L.P.

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Monday Morning Outlook

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Second Quarter GDP

The government's initial estimate of second quarter real GDP growth will be released on Friday and we are forecasting the economy grew at a 3.4% annual rate, a major acceleration from the anemic 0.7% growth rate in the first quarter.

One caveat must be mentioned. Every July, the government revises GDP data for the past three years. When those revisions are released on Friday, it could turn out that the economy was not as weak late last year and early this year as it appeared at the time. If so, it will be tougher to hit our estimate of 3.4%. For example, if inventories did not decline in Q1 like previously estimated, then we would not expect as much inventory accumulation in Q2.

Despite this caveat, the following breakdown of GDP components still adds up to 3.4% real growth for the second quarter.

Personal Consumption: We already have data on consumption through May and if it was unchanged in June (reported July 31) then real consumption will have grown at a 1.4% rate in the second quarter. However, given weak retail sales in June, we think consumption dropped slightly (goods and services combined), so we are using a 1.3% growth rate. With consumption accounting for 70% of GDP, real PCE growth in Q2 will contribute about 0.9 percentage points to real GDP growth (0.9 equals 70% of 1.3).

Housing: Residential construction is still a drag on real GDP growth but the rate of decline in the sector slowed markedly in Q2. The level of housing starts was higher in Q2 than Q1, although the number of homes under construction (previously started but not yet finished) continued to drop. Our model suggests residential construction declined by 7.5% in Q2. Given that the sector makes up 5% of GDP, this translates into a drag of 0.4 percentage points on real GDP growth (0.4 equals 5% of 7.5).

Business Investment: Business construction rose at a 21.7% inflation-adjusted annual rate in Q2, according to the Census Bureau, the fastest since mid-1998. These numbers won't exactly match the construction numbers in the GDP accounts, but suggest a relatively large 0.5 point contribution. For business investment in equipment and software, we are still awaiting Thursday's data on durable goods. If inflation-adjusted shipments of capital goods in June are unchanged from May levels, then equipment and software investment probably added about 0.4 points to GDP. Combined, this sums to 0.9 percentage points.

Inventories: We only have data through April, but if inventories finished the quarter at end-of-April levels, then inventories will add 0.5 points to real GDP growth.

Trade: In the three months through May (latest data available), the real value of exports has risen 22.5% while real imports have only gone up 5%. Trade flows are responding to a weak dollar and strong economic growth abroad. If the inflation-adjusted trade balance is unchanged in June (a conservative thought), it would still add 1.1 percentage points to Q2 real GDP.

Government: In the past five years, on average, government spending has accounted for 0.4 points of GDP growth. We assume this trend continues.

Total: = 3.4%

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-25 / 9:00 am	Existing Home Sales - Jun	5.880 Mil	**6.086 Mil**		5.990 Mil
7-26 / 7:30 am	Durable Goods - Jun	+1.9%	**+1.9%**		-2.4%
7:30 am	Durable Goods (Ex-Trans) - Jun	+0.5%	**-0.1%**		-0.4%
7:30 am	Initial Claims - Jul 21	310K	**312K**		301K
9:00 am	New Home Sales - Jun	0.900 Mil	**0.923 Mil**		0.915 Mil
7-27 / 7:30 am	Q2 GDP Advance	3.2%	**3.4%**		0.7%
7:30 am	Q2 GDP Chain Price Index	3.3%	**3.7%**		4.2%
9:00 am	U. Mich. Consumer Sent. - Jul	91.5	**91.0**		92.4