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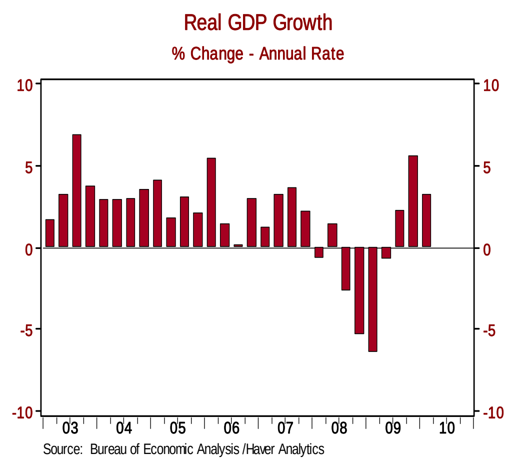
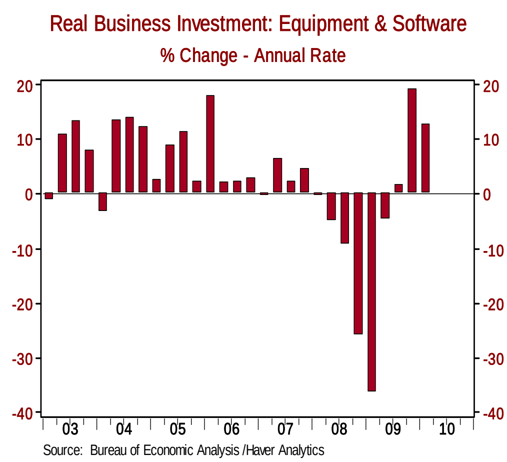
1ST QUARTER GDP (PRELIM)

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Real GDP was revised down to a 3.0% annual growth rate in Q1 from an original estimate of 3.2%. The consensus had expected 3.4%.
- Most of the downward revision can be attributed to a smaller estimate of housing/utilities consumption, with other small downward revisions for business investment and net exports. Inventories were revised upward.
- The largest positive contributions to the real GDP growth rate in Q1 were personal consumption, inventories, and business equipment/software. The weakest components were net exports, commercial construction, and government spending.
- The GDP price index was revised to a 1.0% annual rate of change from a prior estimate of 0.9%. Nominal GDP growth – real GDP plus inflation – was unrevised at a 4.1% annual rate.

Implications: The Federal Reserve thinks the economy will grow 3.5% this year. And yet, despite record East Coast snows, real GDP grew at a 3% annual rate in Q1. To put this in perspective, the last time the East Coast was hit by similar storms, in 1996, real GDP grew at a 2.8% rate in Q1 and then surged at a 7.1% rate in Q2. Given this history and recent data, we expect real GDP to grow at about a 6% rate in Q2 and end up growing 4%+ for the year. The biggest news in today's GDP report was not on the production side – which was little changed from the last report – but the income side, where corporate profits in Q1 were reported for the first time. Profits increased at a 24% annual rate in Q1 and are up 31% versus a year ago. In the quarters ahead, these profits will boost hiring and business investment. They should also help generate a rebound in equity values after recent market turmoil. On the inflation front, GDP prices increased at only a 1% annual rate in Q1. However, prices for the things we buy (gross domestic *purchases*) increased at a 1.7% rate. Nominal GDP (real GDP growth plus inflation) is up 3% versus last year and will be going up quickly in the near future. This means zero percent interest rates from the Fed are too low. In other news this morning, new claims for unemployment insurance fell 14,000 last week to 460,000. Continuing claims for regular state benefits fell 49,000 to 4.61 million.





1st Quarter GDP *Seasonally Adjusted Annual Rates*	Q1-10	Q4-09	Q3-09	Q2-09	4-Quarter Change
Real GDP	**3.0%**	5.6%	2.2%	-0.7%	2.5%
GDP Price Index	**1.0%**	0.5%	0.4%	0.0%	0.5%
Nominal GDP	**4.1%**	6.1%	2.6%	-0.8%	3.0%
PCE	**3.5%**	1.6%	2.8%	-0.9%	1.7%
Business Investment	**3.1%**	5.3%	-5.9%	-9.6%	-2.0%
Structures	**-15.3%**	-18.1%	-18.4%	-17.3%	-17.3%
Equipment and Software	**12.7%**	19.0%	1.5%	-4.9%	6.7%
Contributions to GDP Growth (p.pts.)	**Q1-10**	**Q4-09**	**Q3-09**	**Q2-09**	**4Q Avg.**
PCE	**2.4**	1.2	2.0	-0.6	1.2
Business Investment	**0.3**	0.5	-0.6	-1.0	-0.2
Residential Investment	**-0.3**	0.1	0.4	-0.7	-0.1
Inventories	**1.7**	3.8	0.7	-1.4	1.2
Government	**-0.4**	-0.3	0.6	1.3	0.3
Net Exports	**-0.7**	0.3	-0.8	1.7	0.1

Source: Commerce Department