First Trust DATAWATCH

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First Quarter GDP (Advance)

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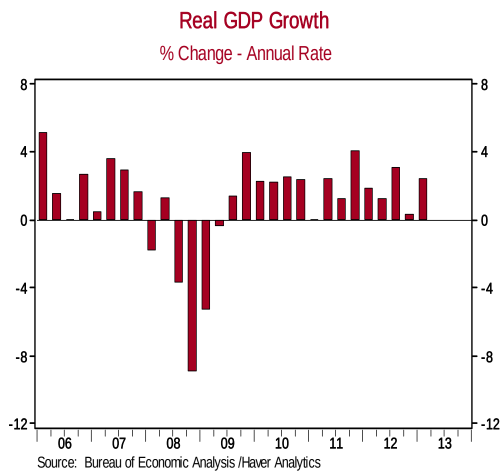
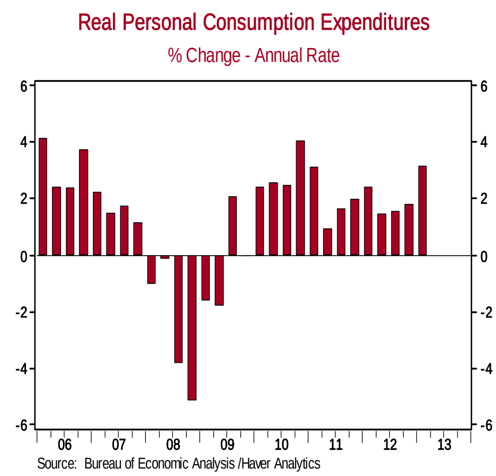
- The first estimate for Q1 real GDP growth is 2.5% at an annual rate, a little lower than the 3.0% the consensus expected. Real GDP is up 1.8% from a year ago.
- The largest positive contributions to the Q1 real GDP growth rate were consumer spending and inventories. The largest drags were government purchases and net exports.
- Personal consumption, business investment, and home building were all positive in Q1, growing at a combined rate of 3.3% annualized.
- The GDP price index increased at a 1.2% annual rate in Q1. Nominal GDP – real GDP plus inflation – rose at a 3.7% rate in Q1 and is up 3.4% from a year ago.

Implications: Taken at face value, today's report on real GDP growth was mildly disappointing, consistent with continued plow horse economic growth. The initial report on Q1 real GDP showed an annualized growth rate of 2.5%. That's better than the average for the past few years, but a little short of consensus (and our) expectations. Some will say that with inventories contributing slightly more to growth than we had expected, the future has some uncertainty. But that ignores good news in today's report. Excluding government purchases, real GDP grew at a 4% annual rate, a very good sign for the private sector and future growth. Most of the decline in government purchases was in the defense sector, which will not continue forever. What's important to remember is that revisions in the next two months may substantially alter the government's estimates of what happened in Q1. For example, the fourth quarter of last year was originally reported as slightly negative but was revised to +0.4%; the third quarter was originally reported as 2% and revised to 3.1%. Taking all of today's report into consideration leaves our forecast for real GDP growth for all of 2013 (Q4/Q4) right where we started the year, which is in the 2.5% to 3% range, a slightly faster plow horse with neither an economic boom or recession. Meanwhile, nominal GDP (real GDP growth plus inflation) grew at a 3.7% annual rate in Q1 and is up 3.4% in the past year. This is too fast for a short-term interest rate target near zero and suggests a quick end to quantitative easing would not hurt the economy. In other recent news, new claims for unemployment insurance declined 16,000 last week to 339,000. Continuing claims for regular state benefits dropped 93,000 to 3.00 million. At present, our models are forecasting payroll gains in April of 180,000 nonfarm and 190,000 in the private sector.





1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-13	Q4-12	Q3-12	Q2-12	4-Quarter Change
Real GDP	**2.5%**	0.4%	3.1%	1.3%	1.8%
GDP Price Index	**1.2%**	1.0%	2.7%	1.6%	1.6%
Nominal GDP	**3.7%**	1.4%	5.9%	2.8%	3.4%
PCE	**3.2%**	1.8%	1.6%	1.5%	2.0%
Business Investment	**2.1%**	13.1%	-1.8%	3.6%	4.1%
Structures	**-0.2%**	16.7%	0.0%	0.6%	4.0%
Equipment and Software	**3.0%**	11.8%	-2.6%	4.8%	4.1%
Contributions to GDP Growth (p.pts.)	**Q1-13**	**Q4-12**	**Q3-12**	**Q2-12**	**4Q Avg.**
PCE	**2.2**	1.3	1.1	1.1	1.4
Business Investment	**0.2**	1.3	-0.2	0.4	0.4
Residential Investment	**0.3**	0.4	0.3	0.2	0.3
Inventories	**1.0**	-1.5	0.7	-0.5	-0.1
Government	**-0.8**	-1.4	0.8	-0.1	-0.4
Net Exports	**-0.5**	0.3	0.4	0.2	0.1

Source: Commerce Department