First Trust DATAWATCH

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3rd Quarter GDP (Preliminary)

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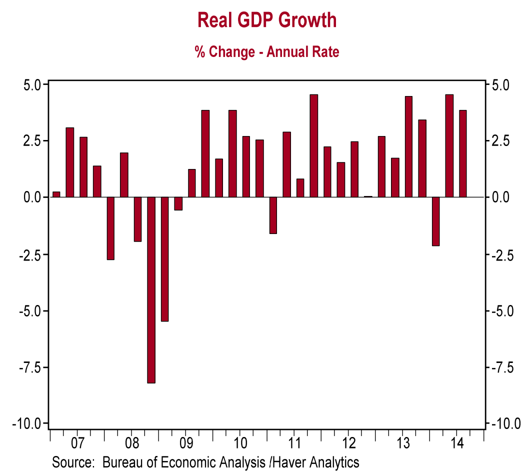
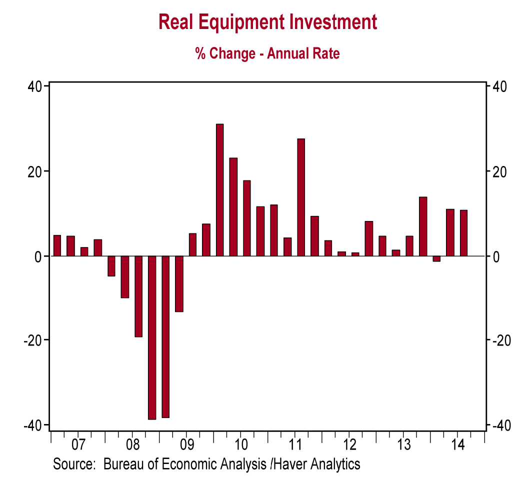
- Real GDP was revised to a 3.9% annual growth rate in Q3 from a prior estimate of 3.5%. The consensus had expected a revision to 3.3%.
- Inventories, personal consumption, and business equipment investment were revised up, offsetting a downward revision in net exports.
- The largest positive contributions to the real GDP growth rate in Q3 were personal consumption, net exports, and government purchases. The only component that was a drag on growth was inventories.
- The GDP price index was revised higher to a 1.4% annual growth rate from a prior estimate of 1.3%. Nominal GDP growth – real GDP plus inflation – was revised up to a 5.3% annual rate from a prior estimate of 4.9%.





Implications: The bull market will continue to run. Forget the surprise upward revision to real GDP for a second. The best news in today's report was that corporate profits grew at an 8.6% annual rate in Q3 and are at a new all-time record high. Ultimately, high profits are why equities are undervalued and today's data supports further equity gains in the year ahead. The government's measure of profits fell steeply in Q1, but the sharp rebound in the past couple of quarters suggests the drop was weather-related, just like the temporary drop in real GDP. The economy grew at a 3.9% annual rate in Q3, which is an improvement from the 3.5% rate reported a month ago. In the past year – which includes the weather-related problems in Q1 as well as the rebound – real GDP is up 2.4%. Real GDP is up at a 2.3% annual rate in the past two years, the same exact pace since the recovery started in mid-2009. However, we expect the pace of real GDP growth to pick up for the next couple of years. Nominal GDP (real growth plus inflation) was revised up to a 5.3% annual rate in Q3 from a prior estimate of 4.9%. Nominal GDP is up 4% from a year ago and up at a 3.9% annual rate in the past two years. These figures show the Fed's target of essentially zero for short-term interest rates is too low and monetary policy is too loose. On the housing front, the national Case-Shiller index, which measures prices across the country, increased 0.7% in September and is up 4.8% from a year ago. The largest gains in the past year have been in Miami, Las Vegas, and San Francisco. The FHFA index, which focuses on homes financed with conforming mortgages, was unchanged in September but up 4.3% versus a year ago. In the year that ended in September 2013, the Case-Shiller was up 10.6% while the FHFA was up 8.3%. In other words, price gains have continued in the past year but at a slower pace. For the year ahead, prices will keep working their way higher but at an even slower pace, more like 3 – 4%. In other news this morning, the Richmond Fed index, a measure of mid-Atlantic manufacturing sentiment, fell to +4 in November from +20 in October. So factory activity is still expanding, just not as quickly.

3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-14	Q2-14	Q1-14	Q4-13	4-Quarter Change
Real GDP	3.9%	4.6%	-2.1%	3.5%	2.4%
GDP Price Index	1.4%	2.1%	1.3%	1.5%	1.6%
Nominal GDP	5.3%	6.8%	-0.8%	5.0%	4.0%
PCE	2.2%	2.5%	1.2%	3.7%	2.4%
Business Investment	7.1%	9.7%	1.6%	10.4%	7.2%
Structures	1.1%	12.6%	2.9%	12.8%	7.2%
Equipment	10.8%	11.2%	-1.0%	14.1%	8.6%
Intellectual Property	6.4%	5.5%	4.7%	3.6%	5.0%
Contributions to GDP Growth (p.pts.)	**Q3-14**	**Q2-14**	**Q1-14**	**Q4-13**	**4Q Avg.**
PCE	1.5	1.8	0.8	2.5	1.7
Business Investment	0.9	1.2	0.2	1.2	0.9
Residential Investment	0.1	0.3	-0.2	-0.3	0.0
Inventories	-0.1	1.4	-1.2	-0.3	-0.1
Government	0.8	0.3	-0.2	-0.7	0.1
Net Exports	0.8	-0.3	-1.7	1.1	0.0

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