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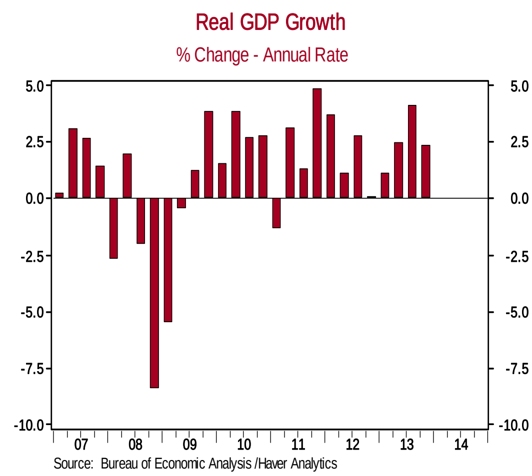
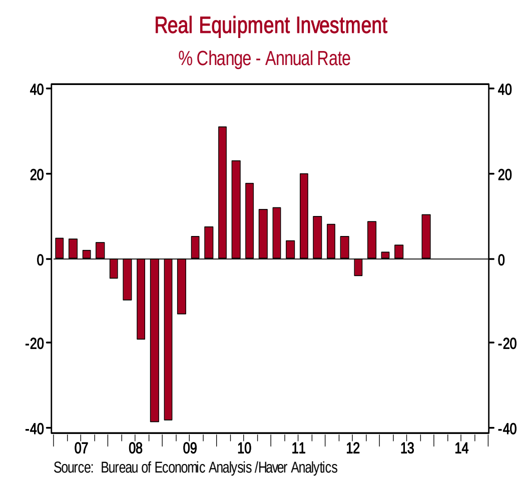
4th Quarter GDP (Preliminary)

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- Real GDP was revised to a 2.4% annual growth rate in Q4 from a prior estimate of 3.2%. The consensus had expected a revision to a 2.5% annual rate.
- The largest downward revisions were for personal consumption, net exports, and inventories. Business investment was revised upward.
- The largest positive contributions to the real GDP growth rate in Q4 were personal consumption, net exports, and business investment. The weakest component, by far, was government purchases.
- The GDP price index was revised upward to a 1.6% annual rate of change from a prior estimate of 1.3%. Nominal GDP growth – real GDP plus inflation – was revised down to a 4.0% annual rate from a prior estimate of 4.6%.

Implications: Today's real GDP report was a mixed bag. The most negative news was the headline, which showed a downward revision of Q4 real GDP growth to a 2.4% annual rate versus an original estimate of 3.2%. However, there were some bright spots in the report. Business investment in equipment was revised up to an annual growth rate of 10.5%, the fastest in more than two years, versus an original estimate of 6.9%. In addition, the "mix" of GDP was more favorable for the future as inventories were revised lower for Q4, meaning more room to fill on shelves and in showrooms. Once again, what we have here is another plow horse report. Growth may be temporarily held down in Q1 due to unusually harsh winter weather, but we expect an offsetting pop in growth in the second quarter and solid growth of roughly 3% beyond that. In terms of what the report means for monetary policy, nominal GDP (real growth plus inflation) was up at a 4% annual rate in Q4, is up 4% from a year ago, and up at a 3.9% annual rate in the past two years. These figures continue to signal that a federal funds target rate of essentially zero is too loose. The Federal Reserve can and should speed up the pace of tapering, to finish quantitative easing well before year end. Regardless, the Fed is likely to take its time and finish tapering in Q3. In other news this morning, despite the harsh winter, the Chicago PMI, a survey of manufacturing sentiment, increased to 59.8 for February from 59.6 for January. We're now forecasting that Monday's national ISM manufacturing report will be unchanged at 51.3. Also today, pending home sales, which are contracts on existing homes, increased 0.1% in January. However, given the large drop in pending home sales in December, look for another decline in existing home sales (counted at closing) for February.





4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-13	Q3-13	Q2-13	Q1-13	4-Quarter Change
Real GDP	2.4%	4.1%	2.5%	1.1%	2.5%
GDP Price Index	1.6%	2.0%	0.6%	1.3%	1.4%
Nominal GDP	4.0%	6.2%	3.1%	2.8%	4.0%
PCE	2.6%	2.0%	1.8%	2.3%	2.1%
Business Investment	7.3%	4.8%	4.7%	-4.6%	3.0%
Structures	0.2%	13.4%	17.6%	-25.7%	-0.2%
Equipment	10.5%	0.2%	3.2%	1.6%	3.8%
Intellectual Property	8.0%	5.7%	-1.5%	3.8%	4.0%
Contributions to GDP Growth (p.pts.)	**Q4-13**	**Q3-13**	**Q2-13**	**Q1-13**	**4Q Avg.**
PCE	1.7	1.4	1.2	1.5	1.5
Business Investment	0.9	0.6	0.6	-0.6	0.4
Residential Investment	-0.3	0.3	0.4	0.3	0.2
Inventories	0.1	1.7	0.4	0.9	0.8
Government	-1.1	0.1	-0.1	-0.8	-0.5
Net Exports	1.0	0.1	-0.1	-0.3	0.2