

## Look Past Tainted GDP Report

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Well, as we warned, revisions to first quarter real GDP now show that the economy contracted an annualized 0.7% in the first three months of 2015. Apparently, few people cared. Yes, it was duly reported by news services, but conservative editorial pages, who typically pounce on negative data, ignored it. They were right to do so. The Q1 GDP data are tainted.

Three temporary factors held growth back in Q1: unusually bad winter weather, port strikes on the West Coast, and a rapid drop in oil drilling due to lower energy prices.

In addition, it is becoming increasingly clear that government statisticians may be misstating Q1 GDP growth. A recent paper from the San Francisco Federal Reserve Bank points out that the first quarter has tended to be weaker than the other quarters going all the way back to the 1990s. This is odd because the government is supposed to be seasonally adjusting the numbers it uses to calculate real GDP, so one quarter shouldn't be consistently weaker than any other.

The Fed paper suggests that incorrect seasonals could be underestimating Q1 GDP by as much as 1.5 percentage points.

This means the economy may have actually grown (by possibly 0.8%, annualized) rather than contracting.

It's not a boom, but it's not bad considering the weather, port strikes, and drop in drilling.

If seasonals are off, looking at year-over-year changes will smooth things out, and in Q1, real GDP was up 2.7% from last Q1-2014. And, real gross domestic income (GDI), which should equal real GDP, grew at a 1.4% annual rate in Q1 and is up 3.6% from a year ago. Production creates income, so, if production was down, income should have been down as well. It wasn't, and we think GDI may be a more accurate measure.

The government is aware of the problem and has said it will release revised data in July and include it in the initial estimate of real GDP growth in Q2. Don't be surprised if the contraction(s) in Q1 disappear, while the rebound in growth in the middle of many recent years looks less intense.

Of course, all of these changes are just about *measuring* real GDP, not about what real GDP is *actually* doing. For that we still think, the Plow Horse economy is the right description.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-1 / 7:30 am	Personal Income – Apr	+0.3%	<b>+0.3%</b>	+0.4%	0.0%
7:30 am	Personal Spending – Apr	+0.2%	<b>+0.1%</b>	0.0%	+0.4%
9:00 am	ISM Index – May	52.0	<b>51.6</b>	52.8	51.5
9:00 am	Construction Spending – Apr	+0.8%	<b>+0.6%</b>	+2.2%	-0.6%
6-2 / 9:00 am	Factory Orders – Apr	-0.1%	<b>+1.0%</b>		+2.1%
Afternoon	Total Car/Truck Sales – May	17.1 Mil	<b>17.4 Mil</b>		16.5 Mil
Afternoon	Domestic Car/Truck Sales – May	13.2 Mil	<b>13.9 Mil</b>		12.9 Mil
6-3 / 7:30 am	Int'l Trade Balance – Apr	-\$44.0 Bil	<b>-\$44.1 Bil</b>		-\$51.4 Bil
9:00 am	ISM Non Mfg Index – May	57.0	<b>57.2</b>		57.8
6-4 / 7:30 am	Initial Claims – May 30	278K	<b>274K</b>		282K
7:30 am	Q1 Non-Farm Productivity	-3.0%	<b>-2.9%</b>		-1.9%
7:30 am	Q1 Unit Labor Costs	+6.0%	<b>+6.3%</b>		+5.0%
6-5 / 7:30 am	Non-Farm Payrolls – May	228K	<b>234K</b>		223K
7:30 am	Private Payrolls – May	220K	<b>229K</b>		213K
7:30 am	Manufacturing Payrolls – May	5K	<b>0K</b>		1K
7:30 am	Unemployment Rate – May	5.4%	<b>5.4%</b>		5.4%
7:30 am	Average Hourly Earnings – May	+0.2%	<b>+0.2%</b>		+0.1%
7:30 am	Average Weekly Hours – May	34.5	<b>34.6</b>		34.5
2:00 pm	Consumer Credit – Apr	\$16.0 Bil	<b>\$16.9 Bil</b>		\$20.5 Bil