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November 29, 2016 • 630.517.7756 • www.ftportfolios.com

3rd Quarter GDP (Preliminary)

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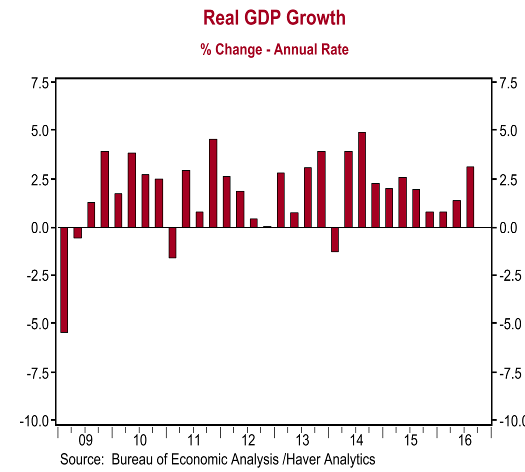
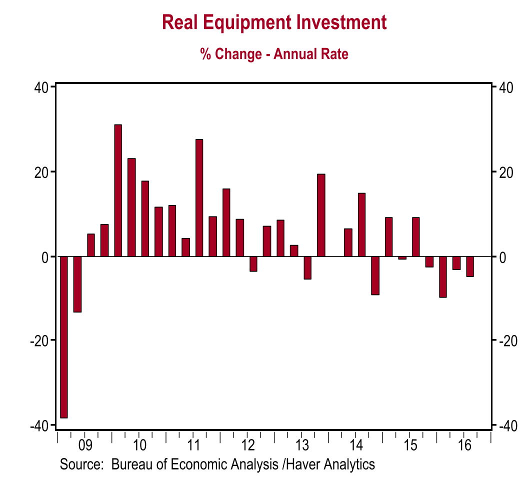
- Real GDP was revised up to a 3.2% annual growth rate in Q3, versus a consensus expected 3.0% and a prior estimate of 2.9%.
- The upward revision was mostly due to personal consumption, which offset slight downward revisions to business investment and inventories.
- The largest positive contribution to the real GDP growth rate in Q3 was personal consumption. The largest drag was home building.
- The GDP price index was revised down to a 1.4% annual growth rate from a prior estimate of 1.5%. Nominal GDP growth – real GDP plus inflation – was revised up to a 4.6% rate from a prior estimate of 4.4%.

Implications: Real GDP was revised higher for the third quarter and the "mix" of growth was better as well, implying faster economic growth ahead. Today's second reading on Q3 GDP showed real economic growth at a 3.2% annual rate, the fastest pace in two years, versus the original 2.9% report a month ago. The largest upward revision was to consumer spending which grew at a 2.8% annualized pace instead of the original reading of 2.1%. However, as of the third quarter, the Plow Horse trend in real GDP growth remained intact. Real GDP is up 1.6% from a year ago and up at a 1.9% annual rate in the past two years. Economy-wide incomes confirm this trend, with real gross domestic income up at a 2.1% annual rate in the past two years, despite growing at a stellar 5.2% rate in Q3. The spike in income in Q3 was due to a sharp rebound in corporate profits, which grew 6.6% in the quarter and are now up 2.8% from a year ago. The lull in profits over the past year and a half has been an energy story. But as energy prices are well off the lows from earlier this year, we expect higher profits in the quarters to come. Meanwhile, plugging the new profits data into our capitalized profits model suggests US equities remain cheap, not only at today's interest rates but even using a 10-year Treasury yield in the 3.5% - 4% range. In terms of monetary policy, the Fed should see today's report as another reason to raise short-term rates. Nominal GDP growth (real growth plus inflation) was revised to 4.6% annual rate in Q3 from a prior estimate of 4.4%. Nominal GDP is up 2.8% in the past year and up at a 3.1% annual rate in the past two years. All of these figures suggest the economy can sustain higher short-term interest rates. Look for the Fed to raise rates in December, with more rate hikes to come in 2017. In other news this morning, the Case-Shiller national home price index increased 0.8% in September and is up 5.5% in the past year. That's an acceleration from the 4.7% gain in the year ending September 2015. In the past twelve months, home price increases have been led by Seattle and Portland.





3rd Quarter GDP Seasonally Adjusted Annual Rates	Q3-16	Q2-16	Q1-16	Q4-15	4-Quarter Change
Real GDP	**3.2%**	1.4%	0.8%	0.9%	1.6%
GDP Price Index	**1.4%**	2.3%	0.5%	0.8%	1.3%
Nominal GDP	**4.6%**	3.7%	1.3%	1.8%	2.8%
PCE	**2.8%**	4.3%	1.6%	2.3%	2.7%
Business Investment	**0.1%**	1.0%	-3.4%	-3.3%	-1.4%
Structures	**10.1%**	-2.1%	0.1%	-15.2%	-2.2%
Equipment	**-4.7%**	-3.0%	-9.5%	-2.6%	-5.0%
Intellectual Property	**1.0%**	9.0%	3.8%	4.5%	4.5%
Contributions to GDP Growth (p.pts.)	**Q3-16**	**Q2-16**	**Q1-16**	**Q4-15**	**4Q Avg.**
PCE	**1.9**	2.9	1.1	1.5	1.9
Business Investment	**0.0**	0.1	-0.4	-0.4	-0.2
Residential Investment	**-0.2**	-0.3	0.3	0.4	0.1
Inventories	**0.5**	-1.2	-0.4	-0.4	-0.4
Government	**0.1**	-0.3	0.3	0.2	0.1
Net Exports	**0.9**	0.2	0.0	-0.5	0.2