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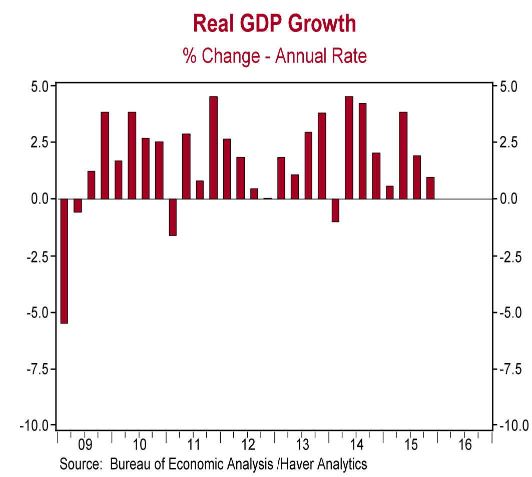
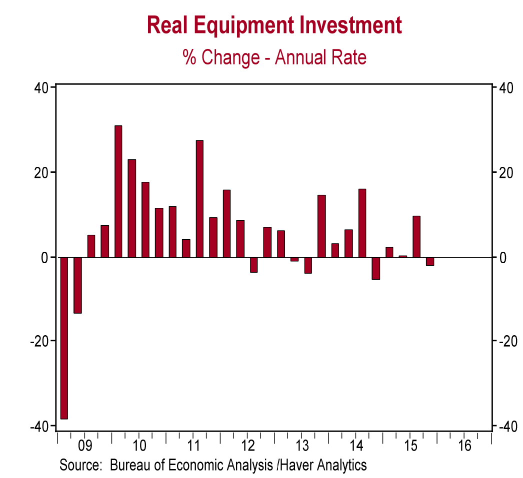
4th Quarter GDP (Preliminary)

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

- Real GDP was revised up to a 1.0% annual growth rate in Q4 from a prior estimate of 0.7%, beating the consensus expected revision to 0.4%.
- The largest upward revisions were inventories and net exports. Government purchases were revised down.
- The largest positive contribution to the real GDP growth rate in Q4 was personal consumption.
- The GDP price index was revised upward slightly to a 0.9% annual rate of change from a prior estimate of 0.8%. Nominal GDP growth – real GDP plus inflation – was revised up to a 2.0% annual rate from a prior estimate of 1.5%.

Implications: Real GDP growth was revised up to a 1% annual rate for the fourth quarter, a positive surprise versus the 0.4% the consensus expected. However, the report should not change anyone's impression about the Plow Horse economy. On net, all of the upward revision was due to inventories and international trade, neither of which can be relied on for long-term economic growth. Consumer spending, business investment, and home building were all revised down very slightly. In other words, although Q4 grew faster than previously estimated, the "mix" of growth wasn't as good. Overall, what we have here is another plow horse report. Expect another similar tepid report for Q1. Despite updating their methods last July, it still looks like the government is underestimating real GDP growth by about a percentage point in the first quarter of each year, and then making up for it in the next two quarters. The most important news today was on nominal GDP growth (real growth plus inflation), which was revised up to a 2% growth rate in Q4 versus a prior estimate of 1.5%. Nominal GDP grew 3% in 2015 and is up at a 3.5% annual rate in the past two years. All of these growth rates signal that a federal funds target rate of 0.25 – 0.5% is too low. As a result, look for inflation to gradually move up toward the Fed's 2% target later this year and look for inflation getting above target in 2017.





4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-15	Q3-15	Q2-15	Q1-15	4-Quarter Change
Real GDP	**1.0%**	2.0%	3.9%	0.6%	1.9%
GDP Price Index	**0.9%**	1.3%	2.1%	0.1%	1.1%
Nominal GDP	**2.0%**	3.3%	6.1%	0.8%	3.0%
PCE	**2.0%**	3.0%	3.6%	1.7%	2.6%
Business Investment	**-1.9%**	2.6%	4.1%	1.6%	1.6%
Structures	**-6.6%**	-7.2%	6.3%	-7.4%	-3.9%
Equipment	**-1.8%**	9.9%	0.3%	2.3%	2.6%
Intellectual Property	**1.3%**	-0.8%	8.3%	7.4%	4.0%
Contributions to GDP Growth (p.pts.)	**Q4-15**	**Q3-15**	**Q2-15**	**Q1-15**	**4Q Avg.**
PCE	**1.4**	2.0	2.4	1.2	1.8
Business Investment	**-0.2**	0.3	0.5	0.2	0.2
Residential Investment	**0.3**	0.3	0.3	0.3	0.3
Inventories	**-0.1**	-0.7	0.0	0.9	0.0
Government	**0.0**	0.3	0.5	0.0	0.2
Net Exports	**-0.3**	-0.3	0.2	-1.9	-0.6