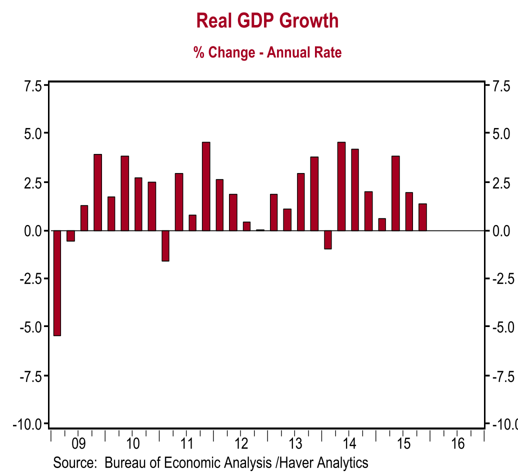
First Trust DATAWATCH
March 28, 2016 • 630.517.7756 • www.ftportfolios.com

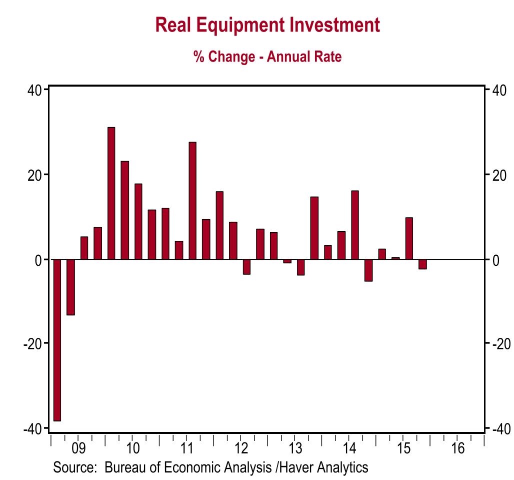
4th Quarter GDP (Final)

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Real GDP growth in Q4 was revised higher to a 1.4% annual rate, beating the previously reported and consensus expected 1.0%.
- The largest positive revisions were for consumer spending and net exports, while inventories were revised slightly lower.
- The largest positive contributions to the real GDP growth rate in Q4 came from consumer spending and residential investment. The weakest components of real GDP were business investment and inventories.
- The GDP price index was unrevised at a 0.9% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 2.3% annual rate versus a prior estimate of 2.0%. Nominal GDP is up 3.1% versus a year ago.

Implications: It's hard to get more Plow Horse than the top-line number on fourth quarter GDP. The good news was that real GDP growth was revised up to a 1.4% growth rate from last month's estimate of 1.0%. Plus, the "mix" of GDP was slightly more favorable for future quarters as inventories were revised down, leaving more room for re-stocking on shelves and in showrooms in future quarters. Personal consumption was revised up to a 2.4% annualized growth rate from a prior estimate of 2.0%, mainly due to more services. However, the GDP report had some negative news as well. Economy-wide corporate profits declined 7.8% in Q4 and are down 11.5% from a year ago. The decline was mainly due to losses from domestic petroleum and coal companies. Excluding these companies, profits were still down 1.7% in Q4, but up 4% from a year ago. Although overall corporate profits are now down in four of the last five quarters, they remain strong relative to GDP. In the quarters ahead, overall profits should revive as consumers spend more of their savings from lower energy prices. Meanwhile, nothing in today's report changes our view that the Federal Reserve has plenty of reason to keep raising short-term interest rates. Nominal GDP (real growth plus inflation) is up 3.1% from a year ago and up at a 3.5% annual rate in the past two years. For comparison, the average annual growth for nominal GDP is 3.1% in the past ten years and 4.3% in the past twenty years. In other words, we're not that far from normal growth in nominal GDP, but short-term interest rates remain far below normal. Right now, we're estimating real GDP to grow about 1.0% at an annual rate in the first quarter. Yet, like last year, real GDP growth should rebound in Q2 and beyond.





4th Quarter GDP Seasonally Adjusted Annual Rates	Q4-15	Q3-15	Q2-15	Q1-15	4-Quarter Change
Real GDP	**1.4%**	2.0%	3.9%	0.6%	2.0%
GDP Price Index	**0.9%**	1.3%	2.1%	0.1%	1.1%
Nominal GDP	**2.3%**	3.3%	6.1%	0.8%	3.1%
PCE	**2.4%**	3.0%	3.6%	1.7%	2.7%
Business Investment	**-2.1%**	2.6%	4.1%	1.6%	1.5%
Structures	**-5.1%**	-7.2%	6.3%	-7.4%	-3.5%
Equipment	**-2.1%**	9.9%	0.3%	2.3%	2.5%
Intellectual Property	**-0.1%**	-0.8%	8.3%	7.4%	3.6%
Contributions to GDP Growth (p.pts.)	**Q4-15**	**Q3-15**	**Q2-15**	**Q1-15**	**4Q Avg.**
PCE	**1.7**	2.0	2.4	1.2	1.8
Business Investment	**-0.3**	0.3	0.5	0.2	0.2
Residential Investment	**0.3**	0.3	0.3	0.3	0.3
Inventories	**-0.2**	-0.7	0.0	0.9	0.0
Government	**0.0**	0.3	0.5	0.0	0.2
Net Exports	**-0.1**	-0.3	0.2	-1.9	-0.5