

## Still Plowing Away

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As we wrote three months ago, it's going to take much more than animal spirits to lift economic growth from the sluggish pace of the past several years. Measures of consumer and business confidence continue to perform much better than before the election. But where the economic rubber hits the road, in terms of actual production,...not so much.

It looks like real GDP growth will clock in at a 1.3% annual rate in the first quarter. This is slower than the recovery's average, but still within what we call the Plow Horse growth range. Until the US actually sees some major economic reforms – not just talk or tweets, but legislation that's actually passed into law – there will be no real acceleration in growth.

Hopefully, this happens soon, with measures that free up the health care sector and cut marginal tax rates, among other changes. But the waiting is the hardest part.

We get some data later this week and next week that may make us tweak our forecast – like Industrial Production, Orders for Durable Goods, and the Advance Report on Trade and Inventories – but we doubt we will get news that changes our current forecast in any significant way.

Here's how we get to our 1.3% forecast.

**Consumption:** Automakers reported car and light truck sales dropped at a 17.2% annual rate in Q1, the steepest decline since late 2009, right after cash for clunkers. We think sales will rebound in Q2, but the peak in auto sales is probably behind us. "Real" (inflation-adjusted) retail sales outside the auto sector grew at a 3.1% rate in Q1, but growth in services was weak, in part due to above-normal temperatures in in January and February that held down utilities. Our models suggest real personal consumption of goods and services, combined, grew at a 0.7% annual rate in Q1, contributing 0.5 points to the real GDP growth rate (0.7 times the consumption share of GDP, which is 69%, equals 0.5).

**Business Investment:** Looks like all cylinders were clicking in Q1, with roughly 5% growth in equipment,

commercial construction, as well as R&D. That should add 0.6 points to the real GDP growth rate, the most since late 2014. (5.0 times the 12% business investment share of GDP equals 0.6).

**Home Building:** The same unusually warm weather that held down utilities in January/February, which kept consumer spending on services low, looks like it added to residential construction, boosting that sector at about an 8% annual rate. We expect continued growth in this sector even if mortgage rates rise, as more jobs and faster wage growth will lead to more demand for housing. An 8% growth rate will add 0.3 points to the real GDP growth rate. (8.0 times the home building share of GDP, which is 4%, equals 0.3).

**Government:** Military spending didn't drop as much as it usually does in Q1 but public construction projects fell. On net, we're estimating that real government purchases were unchanged in Q1, which would leave real GDP growth unaffected (0 times the government *purchase* share of GDP, which is 18%, equals 0.0).

**Trade:** At this point, we only have trade data through February. Based on what we've seen so far, it looks like net exports should add 0.3 points to the real GDP growth rate in Q1.

**Inventories:** We have even less information on inventories than we do on trade, but what we have so far suggests companies are stocking shelves and showrooms at a slower pace in Q1 than they were in Q4, which should subtract 0.4 points from the real GDP growth rate.

Keep in mind that there's a preliminary trade and inventories report the day before the GDP release and those trade and inventory figures could change our GDP forecast as well. But, for the time being, you can put it all together, and get an estimate of 1.3% for Q1.

Not great, not awful,...hopefully one of the last Plow Horse reports we see before better policies bring better growth.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-17 / 7:30 am	Empire State Mfg Survey - Apr	15.0	<b>16.4</b>	<b>5.2</b>	16.4
4-18 / 7:30 am	Housing Starts – Mar	1.250 Mil	<b>1.236 Mil</b>		1.288 Mil
8:15 am	Industrial Production – Mar	+0.4%	<b>+0.7%</b>		+0.1%
8:15 am	Capacity Utilization – Mar	76.2%	<b>76.4%</b>		75.9%
4-20 / 7:30 am	Initial Claims Apr 15	241K	<b>244K</b>		234K
7:30 am	Philly Fed Survey – Apr	25.8	<b>35.4</b>		32.8
4-21 / 9:00 am	Existing Home Sales – Mar	5.600 Mil	<b>5.610 Mil</b>		5.480 Mil