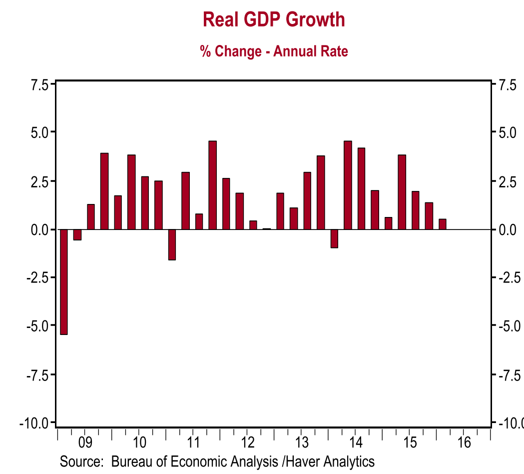
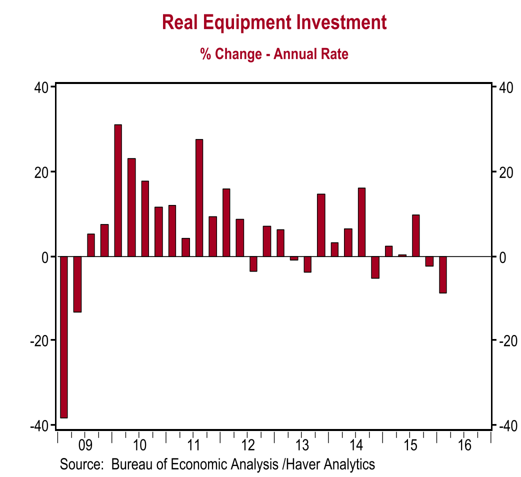
First Trust DATAWATCH
April 28, 2016 • 630.517.7756 • www.ftportfolios.com

First Quarter GDP (Advance)

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

- The first estimate for Q1 real GDP growth is 0.5% at an annual rate, slightly below the 0.7% the consensus expected. Real GDP is up 1.9% from a year ago.
- Consumer spending and home building provided the largest positive contributions to Q1 real GDP growth. Business investment, inventories, trade, and commercial construction subtracted from growth.
- Nonetheless, personal consumption, business investment, and home building, what could be called "core private GDP," grew at a 1.2% annual rate in Q1 and is up 2.6% from a year ago.
- The GDP price index increased at a 0.7% annual rate in Q1. Nominal GDP – real GDP plus inflation – rose at a 1.2% rate in Q1 and is up 3.2% from a year ago.





Implications: Nothing in today's GDP report should change anyone's opinion about the Plow Horse Economy. Although real GDP grew at only a 0.5% annual rate in the first quarter, it came in slightly above what we anticipated. What we call the Q1 Curse struck again in 2016. Real GDP grew at essentially the same rate in the first quarter of last year, and actually shrank in the first quarters of 2011 and 2014, without a recession or any change to the plow horse trend. This time will be no different. We expect a rebound in the growth rate later this year. How can we be so confident about continued growth? To check the underlying trend in real GDP growth, we like to take out inventories, international trade, and government spending, none of which can be relied on for long-term growth. What's left are consumer spending, business investment, and home building, what we also call "core GDP." That grew at a 1.2% annual rate in Q1, is up 2.6% from a year ago, and is up at a 3.1% annual rate in the past 2 years. In particular, consumer spending grew at a moderate 1.9% rate in Q1 while home building boomed at a 14.9% rate. This report suggests that the Federal Reserve should remain on course to raise rates in June. Nominal GDP (real GDP growth plus inflation) grew at a 1.2% annual rate in Q1, is up 3.2% from a year ago, and is up at a 3.6% annual rate in the past two years. All of these figures suggest the Fed can raise rates without hurting the economy. In other news this morning, new claims for unemployment insurance rose 9,000 last week to 257,000. However, the four week average fell to 256,000, the lowest since 1973. Continuing claims declined 5,000 to 2.13 million, a new low for the current economic expansion. There is still plenty of data to come that might change our forecast, but plugging today's figures into our models generates a payroll forecast of 240,000 in April, a very solid month.

1st Quarter GDP *Seasonally Adjusted Annual Rates*	Q1-16	Q4-15	Q3-15	Q2-15	4-Quarter Change
Real GDP	**0.5%**	1.4%	2.0%	3.9%	1.9%
GDP Price Index	**0.7%**	0.9%	1.3%	2.1%	1.3%
Nominal GDP	**1.2%**	2.3%	3.3%	6.1%	3.2%
PCE	**1.9%**	2.4%	3.0%	3.6%	2.7%
Business Investment	**-5.8%**	-2.1%	2.6%	4.1%	-0.4%
Structures	**-10.6%**	-5.1%	-7.2%	6.3%	-4.4%
Equipment	**-8.6%**	-2.1%	9.9%	0.3%	-0.3%
Intellectual Property	**1.7%**	-0.1%	-0.8%	8.3%	2.2%
Contributions to GDP Growth (p.pts.)	**Q1-16**	**Q4-15**	**Q3-15**	**Q2-15**	**4Q Avg.**
PCE	**1.3**	1.7	2.0	2.4	1.8
Business Investment	**-0.8**	-0.3	0.3	0.5	0.0
Residential Investment	**0.5**	0.3	0.3	0.3	0.3
Inventories	**-0.3**	-0.2	-0.7	0.0	-0.3
Government	**0.2**	0.0	0.3	0.5	0.3
Net Exports	**-0.3**	-0.1	-0.3	0.2	-0.1