First Trust DATAWATCH

April 30, 2014 • 630.517.7756 • www.ftportfolios.com

First Quarter GDP (Advance)

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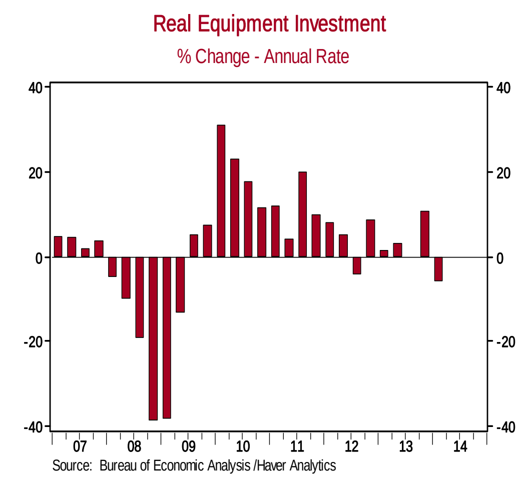
- The first estimate for Q1 real GDP growth is 0.1% at an annual rate, below the 1.2% the consensus expected. Real GDP is up 2.3% from a year ago.
- The largest positive contribution to the Q1 real GDP growth rate was consumer spending. The largest drags were net exports and inventories.
- Personal consumption, business investment, and home building grew at a combined rate of 1.9% annualized in Q1.
- The GDP price index increased at a 1.3% annual rate in Q1. Nominal GDP – real GDP plus inflation – rose at a 1.4% rate in Q1 and is up 3.7% from a year ago.



Implications: Weak GDP growth in Q1 should have been expected, but also should be ignored. The weather was the culprit and sets us up for a sharp rebound in Q2. Real GDP growth clocked in at a 0.1% annual rate in Q1, a combination of surprisingly strong consumer spending and weakness almost everywhere else. To assess the underlying trend in the economy, we like to take out inventories, international trade, and government spending, none of which can be relied upon to generate long-term growth. What's left are consumer spending, business investment, and home building. Those grew at a 1.9% annual rate in Q1, and are up 2.6 % in the past year. This is not as fast as we'd like but well within the range of the past five years. Although nominal GDP (real GDP growth plus inflation) grew at only a 1.4% annual rate in Q1, it's up 3.7% from a year ago, suggesting the Fed could raise rates without harming the economy. In other news this morning, the ADP index showed a 220,000 increase in private payrolls in April. Plugging this and other data into our models suggests a nonfarm payroll gain of 223,000. (We'll update the forecast tomorrow after we get reports on jobless claims and consumer spending.) Meanwhile, the Chicago PMI, which measures manufacturing sentiment, surged to 63.0 in April from 55.9 in March. As a result, we're lifting our forecast for tomorrow's national ISM index to 54.9 versus a consensus expected 54.2. On the housing front, pending home sales (contracts on existing homes) increased 3.4% in March, suggesting a modest increase in existing home sales in April. The Case-Shiller index, which measures homes prices in 20 key metro areas, increased 0.8% (seasonally-adjusted) in February and is up 12.9% in the past year. Price gains in the past year have been led by Las Vegas, San Francisco, San Diego, and Los Angeles. The bottom line for data today is that the weakness in GDP is a backward looking data point. The Chicago PMI, ADP, pending home sales, and housing prices are sending a truer signal of what is happening in the economy. We expect the Fed to announce another taper of $10 billion after today's meeting.

4th Quarter GDP Seasonally Adjusted Annual Rates	Q1-14	Q4-13	Q3-13	Q2-13	4-Quarter Change
Real GDP	0.1%	2.6%	4.1%	2.5%	2.3%
GDP Price Index	1.3%	1.6%	2.0%	0.6%	1.4%
Nominal GDP	1.4%	4.2%	6.2%	3.1%	3.7%
PCE	3.0%	3.3%	2.0%	1.8%	2.5%
Business Investment	-2.0%	5.7%	4.8%	4.7%	3.2%
Structures	0.2%	-1.8%	13.4%	17.6%	7.0%
Equipment	-5.5%	10.9%	0.2%	3.2%	2.0%
Intellectual Property	1.5%	4.0%	5.7%	-1.5%	2.4%
Contributions to GDP Growth (p.pts.)	**Q1-14**	**Q4-13**	**Q3-13**	**Q2-13**	**4Q Avg.**
PCE	2.0	2.2	1.4	1.2	1.7
Business Investment	-0.3	0.7	0.6	0.6	0.4
Residential Investment	-0.2	-0.3	0.3	0.4	0.1
Inventories	-0.6	0.0	1.7	0.4	0.4
Government	-0.1	-1.0	0.1	-0.1	-0.3
Net Exports	-0.8	1.0	0.1	-0.1	0.1